DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

# CHILE

# CONDITIONAL CREDIT LINE (CCLIP) AND INDIVIDUAL LOAN PROGRAM TO SUPPORT SUBNATIONAL GOVERNANCE IN CHILE

**(CH-L1018)**

## LOAN PROPOSAL

This document was prepared by the project team consisting of: Orlando A. Reos (RE1/SC1), Division Chief; Francisco Mejía (RE1/SC1), Project Team Leader prior to CRG2; Juan Carlos Cortázar (RE1/SC1), Project Team Leader from CRG2 onward; Jorge Venegas (COF/CCH); Gloria Coronel (COF/CCH); Robert Daughters (SDS/SGC); Rosina de Souza (LEG/OPR); Paula Giraldez (LEG/OPR); Fernando Rossel (FIN/LMB); Claudia Franco (FIN/FIN); Esteban Molfino (FIN/FND); and Irene Cartín (RE1/SC1). The project team had support from consultants Fernando Grafe, Ignacio Irarrázabal, Mario Marcel, Ximena Montenegro, Juan Pablo Valenzuela, and Eduardo Walker.

CONTENTS

PROJECT SUMMARY

I. FRAME OF REFERENCE .......... 1

A. Background .......... 1
1. Introduction .......... 1
2. Description of regional and municipal governments .......... 1
3. The decentralization process in Chile .......... 2
4. Challenges in subnational governance .......... 3
5. Certification of Chilean public sector management .......... 6
6. Previous Bank support and lessons learned .......... 6
B. The government's strategy, the program strategy, and rationale for Bank participation .......... 7
1. The government's strategy .......... 7
2. Program strategy .......... 8
3. Rationale for a CCLIP line and a PDL as the first operation .......... 8
C. The Bank's country strategy .......... 10
D. Coordination with other Bank programs and international agencies .......... 10

II. THE PROGRAM .......... 11

A. Objectives to the CCLIP line and the first PDL program .......... 11
B. Program areas .......... 11
1. Strengthening of subnational agency management through certification and incentives-based systems .......... 12
2. Financing of the design of subnational management models and support for investment projects stemming from their introduction .......... 15
3. Support for devolution .......... 16
4. System for ongoing evaluation, knowledge management and strengthening of SUBDERE's institutional framework .......... 17
C. Cost and financing .......... 18

III. PROGRAM EXECUTION .......... 19

A. Borrower and executing agency .......... 19
B. Findings of risk analysis for program execution .......... 19
C. Program execution mechanism .......... 19
D. Monitoring and evaluation .......... 21
1. Monitoring .......... 21
2. Evaluation .......... 22
3. Performance verification .......... 22
4. Financial audits .......... 23

E. Execution and disbursement periods ........ 23
F. Procurement ........ 24
G. Recognition of expenditures ........ 24
H. Currency ........ 24

IV. VIABILITY AND RISKS ........ 25

A. Institutional viability ........ 25
B. Benefits ........ 25
C. SEQ and PTI classification ........ 26
D. Environmental and social impacts ........ 26
E. Special considerations ........ 27

## Annexes

| | |
|---|---|
| Annex I | Performance Matrix |
| Annex II | Currency |

Proposed resolution

| Electronic Links and References | |
|---|---|
| Basic socioeconomic data | **http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata** |
| Status of loans in execution and loans approved | http://ops/main/aspx/home-pais.aspx?cty=CH |
| Tentative lending program | http://opsgs1/ABSPRJ/tentativelending.ASP?S=CH&L=SP |
| Information available in the RE1/SC1 technical files | http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=827236 |
| Eligible expenditures | http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=827224 |
| Descriptive technical briefs of performance indicators | http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=831673 |
| Terms of reference: Performance verification | http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=831679 |
| More flexible loan repayment schedules | http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=832224 |
| Pricing based on the Bank's actual funding costs if sourced through bond issues | http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=832235 |
| Financial risks if no currency substitution clause is included in local currency loan contracts | http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=832228 |

## ABBREVIATIONS

| | |
|---|---|
| ARDP | Regional Productive Development Agencies |
| ARI | Preliminary draft law on regional investment |
| CCLIP | Conditional credit line for investment projects |
| CESI | Committee on Environment and Social Impact |
| DIPRES | Office of the Budget |
| EIA | Environmental impact assessment |
| EIS | Environmental impact statement |
| FNDR | National Fund for Regional Development |
| ICAS | Institutional Capacity Assessment System |
| LCF | Local Currency Facility |
| MIP | Management improvement program |
| PAU | Program Administrative Unit |
| PCR | Project completion report |
| PDL | Performance-driven loan |
| PLADECO | Communal development plans |
| PPMR | Program performance monitoring report |
| PROPIR | Public Program for Regional Investment |
| SEREMI | Regional offices of the ministries |
| SNI | National System for Investments |
| SUBDERE | Office of the Deputy Secretary for Regional and Administrative Development |

## PROJECT SUMMARY

## CHILE
## CONDITIONAL CREDIT LINE (CCLIP) AND INDIVIDUAL LOAN
## PROGRAM TO SUPPORT SUBNATIONAL GOVERNANCE IN CHILE
## (CH-L1018)

<table>
<tr><th colspan="5">Financial Terms and Conditions[1]</th></tr>
<tr><td colspan="3">Borrower: Republic of Chile</td><td>Amortization period:</td><td>15 years</td></tr>
<tr><td colspan="3" rowspan="2">Executing agency: Office of the Deputy Secretary for Regional and Administrative Development, Ministry of the Interior</td><td>Grace period:</td><td>5.5 years</td></tr>
<tr><td>Disbursement period:</td><td>5.5 years</td></tr>
<tr><th>Source</th><th>Program</th><th>Line</th><td>Interest rate:</td><td>Adjustable</td></tr>
<tr><td>IDB (Ordinary Capital)</td><td>US$50 million</td><td>US$400 million</td><td>Inspection and supervision fee:</td><td>0%*</td></tr>
<tr><td>Local</td><td></td><td>To be determined for each operation under the line</td><td>Credit fee:</td><td>0.25% on undisbursed amounts</td></tr>
<tr><td rowspan="2">Total</td><td rowspan="2">US$50 million</td><td rowspan="2">US$400 million</td><td>Currency:</td><td>U.S. dollars from the Single Currency Facility</td></tr>
<tr><td>Conversion to Chilean pesos:</td><td>Local Currency Facility</td></tr>
</table>

### Project at a Glance

**Project objective:**

The purpose of this conditional credit line for investment projects (CCLIP) is to support the decentralization process and regional development. The first operation's objective is to strengthen municipal and regional institutional capacity, so that regional governments can effectively exercise their authority to lead and coordinate their regions' development.

The CCLIP line will finance: (i) individual investment projects in all areas eligible for National Fund for Regional Development (FNDR) financing that satisfy the project selection and prioritization criteria given in the operating regulations of the FNDR, regional governments and other public institutions involved in the public investment cycles in Chile; (ii) institution-strengthening and management capacity building activities, including training activities; and (iii) studies. The first CCLIP operation will be a performance-driven loan (PDL). The outcomes of the first operation will be: (i) regional governments empowered to exercise their regional leadership; (ii) a regional development approach introduced in subnational management; and (iii) relevant regional and municipal management processes certified and constantly undergoing improvement. In order to achieve the expected outcomes, the first operation has been structured around four areas of activity: (i) strengthening of subnational agency management through certification and incentives-based systems; (ii) financing of the design of subnational management models and support for investment projects stemming from their introduction; (iii) support for devolution; and (iv) development of a system for ongoing evaluation, knowledge management and strengthening of the SUBDERE institutional framework.

**Special contractual conditions:**
(i) Selection and contracting of the verifying firm will be a condition precedent to the first disbursement (see paragraph 3.13).
(ii) Establishment of the program administrative unit (PAU), assignment of program executive and strategic management responsibilities, and appointment of the technical coordination and project teams by hiring or appointment will be a condition precedent to the advance (see paragraph 3.18).

**Exceptions to Bank policies:** None.

Regarding the policy on conditional credit lines for investment projects (CCLIPs) (document GN-2246-1 of 11 July 2003): (i) operations may be funded under the credit line without the previous project having necessarily committed 75% of its funds, or disbursed 50% thereof (see paragraph 1.30); and (ii) the credit line will finance individual loans in all sectors eligible to receive funding from FNDR, regardless of whether they have previously had Bank financing (see paragraph 1.30).

Regarding the policy on the Local Currency Facility (document GN-2365-2 of 4 November 2005): (i) the currency substitution clause is not applicable to the CCLIP line or the operations included thereunder (see paragraph 3.22 and Annex II, section 3).

In order to increase financing options for the borrower, conversions of disbursements into local currency for projects funded under the CCLIP line will be subject to two financial conditions, in addition to those stipulated in the LCF: (i) more flexible repayment profiles for disbursements and balances owed in local currency; (ii) pricing based on the Bank's actual funding costs if sourced through bond issues (see paragraph 3.22 and Annex II, section 2).

| | | | | | |
|---|---|---|---|---|---|
| Project consistent with country strategy: | Yes [X] | No [ ] | | | |
| Project qualifies as: | SEQ [No] | PTI [No] | Sector [ ] | Geographic [ ] | Headcount [ ] |

Verified by CESI on: 1 September 2006.

Procurement: Does not apply to the first operation (PDL).

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

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

# I. FRAME OF REFERENCE

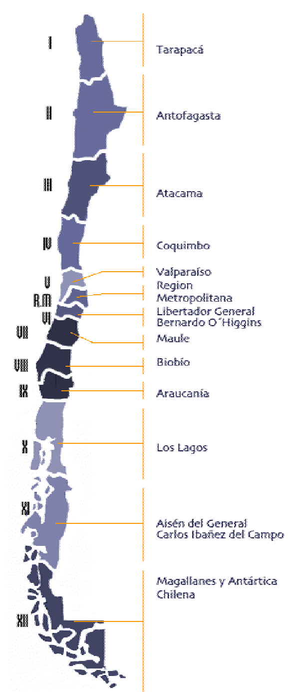
## A. Background

### 1. Introduction

1.1 The Chilean government's Office of the Deputy Secretary for Regional and Administrative Development (SUBDERE) has been an executing agency for Bank programs for more than twenty years, during which time it has successfully implemented four subnational investment programs. As such, approval of a US$400 million conditional credit line for investment projects (CCLIP) is proposed for this agency. This first operation under the CCLIP would be a performance-driven loan (PDL) for US$50 million to support the government in addressing an institutional challenge that must now be met: strengthening of regional governments so that the decentralization process can build upon a foundation of stronger subnational governments. The CCLIP line would draw on resources from the Ordinary Capital of the Single Currency Facility in U.S. dollars and would be subject to the Local Currency Facility (LCF) (document GN-2365-2 of 4 November 2005).

### 2. Description of regional and municipal governments

1.2 Chile is a unitary state whose territory is divided into **regions**, which in turn are divided into **provinces**. Within the provinces are communes governed by **municipalities**. A regional governor, who is appointed by the President of the Republic, heads each of the thirteen regions. Each region is administered by a regional government, which is composed of the governor and a regional council.[1] The regional government's main functions are to: (i) prepare and approve development programs, plans and policies for the region; (ii) determine the investment of resources that correspond to the region under the National Fund for Regional Development (FNDR); (iii) select specific projects to be financed with resources from sector investment programs allocated to the regions; (iv) advise the municipalities; (v) build, restore, maintain and manage works for street and sidewalk paving in urban areas; and (vi) perform a number of regional planning functions.




1.3 The regional governor presides over the regional council and coordinates, supervises, and oversees public services. The regional council, whose members are elected by municipal councilmen, approves regional development plans and the regional government's draft budget, in addition to making decisions on investment of FNDR-related resources. In each province there is an office of the governor, which is a deconcentrated agency under the regional governor's authority.

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[1] Constitutional Act on Regional Government and Administration (Law 19-175, consolidated text).

1.4 There are 345 communes. Local administration of each commune or group of communes lies with the municipality, which is an autonomous public corporation with separate legal status and its own assets. Municipalities are led by mayors and have a council, both of which are elected directly. Municipalities have exclusive powers, as well as powers related to—or shared with—other government bodies. These exclusive powers have to do with planning and regulating the commune, local law enforcement, local sanitation, and community development and participation. Related powers have to do mainly with the delivery of local services to the community, including provision of infrastructure and environmental protection.

1.5 In terms of the central government's deconcentrated administrative structure, with only a few exceptions (Interior, General Secretariat of the Office of the President, Defense, and Foreign Relations), the ministries are organized geographically into regional offices known as SEREMIs. The secretaries who head these regional offices, without detriment to their status as representatives of their respective ministry or ministries in the region, work directly with the regional governor, to whom they are subordinate on all matters of preparation, execution and coordination of policies, plans, budgets, and development projects.

### 3. The decentralization process in Chile

1.6 The Chilean government has operated within a centralist tradition, maintaining tight control over regional administrative structures through ministries and other central government agencies. Even in the last twenty years, when most Latin American countries undertook significant government decentralization processes, changes in Chile were much more cautious, oriented more toward deconcentrating central structures through SEREMIs than a true decentralization of authority to subnational governments. Since the early 1990s, this panorama has begun to change very modestly and gradually with more systematic attempts to deepen the government decentralization process. In the last fifteen years, the election of local authorities was democratized, regional governments were created and their investment resources were doubled, social infrastructure was strengthened and the country was connected through an infrastructure and communications network. As a result, Chile is currently at an intermediate stage of decentralization as compared to developed countries and the rest of Latin America,[2] reflecting a process that can be characterized more as deconcentrating rather than decentralizing.

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[2] This is particularly true from the fiscal standpoint. In 2004, subnational expenditure (regional and local) in Chile accounted for 12.8% of public spending, while the average was 19.3% for the Latin American region as a whole, and 29.1% for the OECD countries. More specifically, Chile ranks sixth among countries of the region with unitary systems of government, behind Colombia, Bolivia, Peru, Ecuador, and Uruguay.

### 4. Challenges in subnational governance

#### a. Challenges of regional and municipal governments

1.7 The resources administered at subnational levels of government have increased significantly in recent years. A prime example is the FNDR, whose budget has more than doubled in the last six years from US$140 billion in 2000 to US$370 billion in 2006, substantially expanding its involvement in public investment. Yet this increase in the volume of resources was not accompanied by strengthened management capacity of municipal and regional governments. For example, since the inception of regional governments in 1994, their staffing has scarcely grown, increasing from an average of 60 employees per region to 73 today. Furthermore, two-thirds of these positions were created through transfers of civil servants from other public services, who in many cases have specializations unsuited to the functions required in regional governments.

1.8 A diagnostic assessment of current conditions finds two main macro processes at work in subnational governance: *planning* and *investment management*.[3] This assessment also identifies a set of related issues:

- Deconcentrated agencies of the different sector public services answer more to central government instructions than to the regional development strategy or the regional cabinet.[4]
- No evaluation bodies within the regional government tie strategies to project results in terms of outputs, outcomes or impacts.
- FNDR budgetary execution concentrates disbursements toward the end of the budget period, demonstrating a lack of strategic investment planning.
- Regional governments have limited capacity to monitor and evaluate regional investment.
- FNDR resources generally finance 100% of the cost of investment projects submitted by municipios, without municipio cofinancing. This creates a powerful incentive to maximize the number of projects approved, without a more strategic formulation.

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[3] There are two interconnected macroprocesses in the regions that involve all public institutional structures, including municipalities: (i) a planning macroprocess that includes the formulation of policies, government programs, regional development strategies, sector investment plans, and provincial, communal and regional planning; and (ii) an investment management macroprocess that involves, inter alia, processes, procedures, criteria, rules, timelines, and methodologies for identifying, formulating, prioritizing, financing, executing and evaluating programs and projects.

[4] A supporting body to the Regional Governor, consisting of the provincial governors and the regional ministerial secretaries (Art. 65 of the Organic Law on Regional Administration and Government – LOCGAR).

- Communal development plans (PLADECO) are frequently not used as management tools. The priorities set in them are generic and not taken into consideration when preparing the municipio's annual budget.
- Citizens and the municipal council have limited participation in identifying investment ideas and initiatives.
- The municipios have trouble preparing well designed projects, due to turnover and limited qualifications of municipal personnel.
- Weaknesses in budget preparation are evident in many municipios, and the most common practice is simply to increase the previous budget.

### b. New approach to subnational management

1.9 Regional government in Chile has emerged gradually, in keeping with the logic of a centralized unitary state. Since the middle of the last decade, when regional governments officially emerged as government administrative bodies with specific responsibilities and authority, they have had a stated role as coordinators of regional development with increasing responsibility for coordinating public investment. With the 2005 publication of the amended Constitutional Act on Regional Government and Administration in Chile's official gazette, El Diario Oficial, the FNDR was given a more important role as an instrument of regional development, and regional governments were empowered with a set of new coordination and management tools suggestive of subnational management models (the preliminary draft law on regional investment (ARI); the public program for regional investment (PROPIR); programming agreements that enable all private and public entities in the region to join forces; and the possibility of creating development foundations or corporations).

1.10 In this context, some regional governments have launched subnational management pilot initiatives, including Bío Bío, Araucanía, Coquimbo and Aysén. Municipios have also undertaken similar actions, creating municipal partnerships based on a specific issue-driven or regional criteria, whose aim is to jointly develop a coordinated set of initiatives to address the partners' common challenges and demands. In a similar vein, a World Bank funded investment program was implemented two years ago in the regions of Coquimbo, Maule, Bío Bío, Araucanía and Los Lagos, under which projects were identified and evaluated on the basis of a subnational management model (the PIRDT rural infrastructure program for subnational development). In addition, the Technical Cooperation Division (SERCOTEC) of Corporación de Fomento de la Producción (CORFO) has developed and implemented programs on a regional model in conjunction with other productive development institutions (Chile Emprende).

1.11 At least three sets of issues must be resolved in order to introduce a regional approach in subnational management. Firstly, there is an overlap of regions identified by different initiatives underway due to a lack of preestablished, consensus-based criteria. In addition, regions have made uneven progress in

instituting subnational management initiatives. Indeed, few regional planning experiences are based on a common project or a shared identity.

1.12 Secondly, practically all of the pilot initiatives face the question of how to effectively reconcile a regional approach to identifying projects with the sector-based approach to allocating resources and evaluating such projects. The difficulty for regional governments with regard to the way sector investment is prioritized lies in the mismatch between what a particular region or area needs and what the ministry or service at a central level decides regarding its resources.

1.13 Thirdly, a great deal of work stills needs to be done to make citizen participation a part of subnational management, so that citizens can effectively have a say in decision-making for planning, allocation and control of investment resources.

### c. Challenges for the main steward of the process: SUBDERE

1.14 The mission of the Office of the Deputy Secretary for Regional and Administrative Development (SUBDERE) of the Ministry of the Interior, is to contribute to subnational development, strengthening local and regional capacity for good governance. To accomplish its mission, SUBDERE focuses its activities on four main areas: (i) management and administration of public investment programs; (ii) design of decentralizing policies, including devolution; (iii) analysis, monitoring, and evaluation of the decentralization process and regional performance; and (iv) support for institution-strengthening at the subnational level. SUBDERE also supports initiatives to incorporate a regional vision into the activities of other central government institutions at subnational agencies.

1.15 A significant part of SUBDERE's activities have to do with the distribution, allocation and oversight of resources linked to the National Fund for Regional Development (FNDR) and the Municipal Common Fund (FCM). The FCM is mechanism for the country's municipios to redistribute their own income among themselves on a solidarity basis. The FNDR is a financial instrument that channels public resources to fund physical and social infrastructure projects in the regions and municipios. By 2006, it is estimated that the FNDR's resources will total approximately US$800 million. The available assessments find that SUBDERE possesses substantial capacity to effectively manage programs under its responsibility, which is one of this agency's strong points.

1.16 SUBDERE's management tools, processes and organizational structure are designed to respond in a compartmentalized way to the specific needs of its customers (regions, provinces and municipios). This compartmentalization is a stumbling block for the introduction of a regional perspective in decentralization strategies. There are also weaknesses in the design and formulation of policies and limited capacity for evaluating the regional impact of the many programs and instruments under SUBDERE's responsibility.

### 5. Certification of Chilean public sector management

1.17 The experience of strengthening public management in Chile has been a great deal more successful at a central level than subnationally. Analyses conducted suggest that one of the key elements in achieving a successful strengthening process is to create adequate mechanisms so that these strengthening activities are grounded in a system of standards and incentives. This system exists centrally but not subnationally.[5]

1.18 In 1998, the Government of Chile initiated the development and introduction of Management Improvement Programs (MIP), tying the fulfillment of management objectives to an incentive of monetary character for the government employees involved.[6] The MIP's coverage includes ministries, services, offices of the regional governor, and offices of the provincial governor, but does not include municipalities.

1.19 The MIP "territorial management" system establishes two goals: that the respective service operate with processes integrated regionally that promote and include regional needs and that each service obtain certification—granted by SUBDERE—as an agency with a regional perspective. To achieve these two goals, four stages were established: the first to draw up diagnostic assessments with a regional perspective; the second to prepare work programs; and the third and fourth to go forward in their execution. The evaluations conducted indicate that "territorial management" has been one of the "systems" with the least progress. Furthermore, in terms of overall compliance with MIP, regional governments have the lowest levels of progress in the Chilean public administration. The MIP relative weakness regarding the territorial dimension and the virtual absence of certification/accreditation systems at the municipal level, means the challenge is to reexamine the model and the enhancement and control management instruments currently available subnationally.

### 6. Previous Bank support and lessons learned

1.20 The Bank has supported local development and decentralization in Chile through four loan programs that totaled US$710 million, which have all been satisfactorily executed: (a) loan 141/OC-CH for the multiple local development investment program (PIM I), approved in December 1984 for US$125 million; (b) loan 578/OC-CH, approved in December 1989, for US$210 million, which financed the multiple local development investment program (PIM II); (c) loan 853/OC-CH for US$75 million, approved in December 1994, which financed the US$500 million

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5 In other countries like Brazil, Mexico and Colombia the strengthening of subnational management has been fashioned by establishing regulatory systems that have created good governance standards.

6 See "Sistemas de control de gestión y presupuestos por resultados: La experiencia Chilena" ["Management Control Systems and Results-based Budgeting: Chile"], Office of the Budget (DIPRES), 2005; and "Programa de mejoramiento de la gestión año 2007" ["Program for Improving Management, 2007"], Technical Document, DIPRES, July 2006.

local development program; and (d) loan 1281/OC-CH for US$300 million, approved in 2000 and completed in 2006, which funded the Program to Improve the Efficiency and Management of Regional Investment for a total sum of US$427 million. As regards the latter, although the project completion report (PCR) is in its final preparation stages, information currently available indicates project execution was highly successful. The Bank's monitoring system (PPMR) states progress was "highly satisfactory" as regards implementation of the project and it was "highly probable" its development objectives would be met.

1.21 The final external evaluation[7] that was conducted is consistent with this assessment. Its main recommendations indicate that point out that in conjunction with FNDR's role as an investment fund geared toward financing social infrastructure projects, SUBDERE must generate capacities and skills in regional governments for defining and introducing new subnational management models. In addition to transferring resource, SUBDERE should make an effort to transfer institutional capacity, thus laying a solid found for the process of devolution. In this sense, it is suggested that SUBDERE could take these requirements into consideration in designing a new IDB loan and a program with a clear institution-strengthening focus, for itself and for the regions.

## B. The government's strategy, the program strategy, and rationale for Bank participation

### 1. The government's strategy

1.22 The current government's program states that decentralization is an essential pillar of a country project for everyone and the main challenge is for regions, communes and their people to have the capacities and tools to manage their own future. The decentralization process under this program gradually and selectively transfers resources and powers to subnational governments so that communities with more developed institutions are not forced to follow the pace of less developed ones. At the same time, the fiscal agreement between the government, municipalities and citizens, aimed at increasing resources, capacities, efficiency, and accountability in the communes, is also based on this gradual approach.

1.23 All these initiatives, which must be developed in a comprehensive way, in response to and in conjunction with citizens, reveal that decentralization in Chile is entering into a new phase whose development will involve highly complex political, institutional and technical processes that will come up against a centralist and sector-specific culture and practices. Furthermore, this demand for greater decentralization could mean having to review and modernize the regulatory framework, institutional capacities and modalities that public players in the region must develop. To this end, the government would like this new decentralization cycle to be rooted in a conceptual and political decentralization strategy and model built from a consensus duly reached by the players involved in the process which

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[7] See Santiago Consultores, Final Evaluation, June 2006.

can: (i) develop, in a consistent way, from administrative deconcentration and functional decentralization towards subnational decentralization; and (ii) creation of a regional institutional framework capable of fostering the country's development, safeguarding its identity as a unitary state, and meeting the needs and identities of regional communities and collective bodies that incorporate, inter alia, the regional approach in their development.

### 2. Program strategy

1.24 Over the course of 22 years, the Bank has been a key partner of SUBDERE in successfully executing four programs that funded subnational investment. During this time, the centralist institutional architecture of the Chilean state has been strength, although it has become a challenge. This program is grounded in this experience and beyond financing investment projects and institution-strengthening actions, it seeks to generate greater management capacities in the regions while leveraging the "hard" investments from the FNDR.

1.25 Furthermore, the government strategy described above, clearly establishes that "orderly" decentralization is a political priority and that this must be linked to generating regional and communal government capacities. The diagnostic assessments conducted and the strategic goals of SUBDERE itself suggest it is recommendable for that actual decentralization of functions and powers be rooted in effective capacities of good governance, especially at the intermediate level as the cornerstone of the region. In this context, generating subnational institutional capacity is proposed, with this program's actions targeting the intermediate level, which shows particularly notable weaknesses.

1.26 A key element of the program's strategy is related to analysis, conducted by both SUBDERE and the Bank with the support of consultants, suggesting it is not advisable to promote a "traditional" institution-strengthening program. This kind of programs typically offers from the "supply" side, assistance packages that are not tied to incentives to make them sustainable. Indeed, sustainability consists of achieving measurable and verifiable outcomes and establishing a "certification" system that contain the appropriate incentives. It is also important to note that it has been recommended assistance be structured around a vision of processes and not an organizational structure, focusing transformational efforts and analysis regarding change on those processes that are considered most "critical" for good regional governance.

### 3. Rationale for a CCLIP line and a PDL as the first operation

1.27 CCLIP lines are designed to provide a credit line for financing investment projects in those cases where the Bank has financed similar operations in a particular country or sector. In order to benefit from one of this lines, the following requirements must be met:

(i) at least one similar Bank project has been executed the same executing agency, and the first project must have completed its execution.

(ii) the previous project's overall execution performance is satisfactory, and all contractual conditions of the Loan Contract, and the Bank's disbursement and procurement policies were fulfilled. Furthermore, all audited financial statements must be up to date and unqualified.

(iii) the executing agency has had a solid track record of satisfactory performance in the execution of the previous project.

(iv) the areas to be financed under the credit line are within the priorities defined in the country strategy and program with the Bank.

1.28 All of these requirements have been fully met for the proposed program. In light of the foregoing, as well as the rationale, relevance, and additionality analyzed, it is proposed that the Bank lend support through a CCLIP line. Eligibility for the CCLIP is based on: (i) the existence of four previous programs that were satisfactorily executed (ii) full compliance by the borrower and the executing agency of the contractual terms and conditions (iii) the existence of final audited financial statements to which there has been no objection; and (iv) the previous programs have incorporated new eligible areas in each of the stages, reflecting the priorities of the Government of Chile. The strong institutional framework of the executing agency has allowed the programs to establish a solid track record with respect to disbursement and performance, and there is no reason whatsoever to believe that this state of affairs is going to change.

1.29 The CCLIP line is suitable both for the borrower as well as the Bank because; (i) it makes medium-term cooperation between the Bank and the government viable for fostering the decentralization process and regional development; (ii) it significantly decreases the transaction costs related to preparing specific operations included in the line.

1.30 The CCLIP line proposal has two specific features to consider: its multisector and nonsequential nature. In terms of the former, the policy in force (document GN-2246-1 of 11 July 2003) stipulates that the instrument "could be used for global credit programs, social investment funds, multiple-works programs, and others."[8] In light of this, it is proposed as an exception to policy that the CCLIP line finance individual loans in all sectors eligible to receive funding from FNDR, regardless of whether they have previously had Bank financing. Thus, the first operation (with a focus on institutional development) could be followed by an individual loan in a specific sector (for example sanitation). In terms of the latter feature, the CCLIP line is a sequentially-structured instrument, which requires at least 75% of the previous project's funds to have been committed, or 50% of its funds disbursed (document GN-2246-1 of 11 July 2003). It is proposed as an exception to this policy that the CCLIP line finance projects that have not fulfilled this requirement.[9]

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8 See document GN-2246-1, " Proposal for a new lending instrument. Conditional Credit Line for Investment Projects (CCLIP)." 11 July 2004, paragraph 1.11.

9 Given the outstanding work of the executing agency in previous Bank operations, there is deemed to be no risk for executing programs under the credit line as a result of this exception.

It is not considered necessary to establish other specific criteria in terms of sequence, given the solid experience the executing agency has garnered in simultaneously implementing several operations under previous Bank programs. These exceptions are requested for the following reasons: (i) the first operation focuses on institutional development that is to support in a parallel manner the individual operations that follow in order to improve the institutional context in which they develop; it would therefore be counterproductive to expect them to comply with the disbursements or resources commitment thresholds set forth in the policy; and (ii) the FNDR is a multisector fund that considers the Bank a strategic partner in developing its projects, so the CCLIP line demands must therefore be adapted to respond to the multisector nature of its financing needs.

1.31 It has been agreed that this CCLIP line's first operation will be a performance-driven loan for two related reasons. Firstly, it is a government priority to enhance the quality of subnational management and deepen the decentralization process. There has been substantial progress in physical investments; however, the final evaluation of the previous stage of Bank support indicates that outcomes achieved were not as significant in institutional terms (assuming powers, management capacity) and actual decentralization. The PDL instrument is perfectly tailored to this greater focus on obtaining results in the decentralization process. Secondly, management by results is deeply rooted at the central level, which has appropriate institutional framework, instruments and incentives. Therefore, the institutional architecture needed to implement a PDL clearly exists, and can be used and adapted at the subnational level.

## C. The Bank's country strategy

1.32 The Bank country strategy is closely aligned with the new administration's priorities. The three challenges for 2006-2010 period are to lend support to reduce the opportunity gap, reduce the competitiveness and income gaps with respect to developed economies, and achieve a more efficient public sector and a State that is closer to its citizens. In terms of this last challenge, the country strategy proposes targeting areas in which the Bank has accumulated valuable experience in Chile and other countries, such as in territorial and subnational development. This program is closely linked to this third challenge.

## D. Coordination with other Bank programs and international agencies

1.33 Over the course of the last year the Bank approved two important subnational/regional development operations, both with special approaches: The Programa Orígenes, Phase II: Integral Development Program for Indigenous Peoples (loan CH-L1014) and the Valparaíso Urban Rehabilitation and Development Program (loan CH-L1004). Furthermore, at the same time as this operation, the Bank is in the process of approving a program for regional productive development agencies (ARDPs) (loan CH-L1019) whose aim is to create mechanisms for productive development (the ARDPs) in each of Chile's 13 regions. With regional governors acting as ARDP Steering Committees, these

agencies should be an important tool for regional governments in their subnational development initiatives. In light of the complementarity between all of the aforementioned operations and this program, there are being closely coordinated. In the case of the Valparaíso programs and the ARDP, this coordination is in the hands of the SUBDERE, which is the executing and coexecuting agency of both; in the case of the Programa Orígenes, the coordination mechanisms are those set out in paragraph 4.7. With specific regard to the ARDP, it is noteworthy that the subnational management models included in the program's second line of action must serve as a political framework for the productive development actions sponsored by the ARDP.

1.34 The Governments of Chile and Germany have a project underway with the GTZ, which seeks to strengthen the decentralization process through a series of regional bilateral cooperation projects. The program initiated its activities in the Bío Bío, Araucanía, Aysén regions, part of the Santiago Metropolitan Region and Valparaíso. The program has a 6-year horizon with the first phase lasting three years, i.e. from 2004-2006. Under this program, the introduction of pioneer subnational development models have been supported, particularly in Bío Bío, where the project design is completely in sync with the focus of the models included in this program. Likewise, a World Bank-sponsored rural infrastructure and regional development program is currently underway which finances multisector investment projects for productive infrastructure, using regional planning systems based on experience in the Bío Bío region. The SUBDERE, as executing agency of the two programs and the actions with the Bank, will ensure consistency between them.

# II. THE PROGRAM

## A. Objectives to the CCLIP line and the first PDL program

2.1 The purpose of this conditional credit line for investment projects (CCLIP) is to support the decentralization process and regional development. The first operation's objective is to strengthen municipal and regional institutional capacity, so that regional governments can effectively exercise their authority to lead and coordinate their regions' development.

## B. Program areas

2.2 The CCLIP line will finance: (i) individual investment projects in all areas eligible for National Fund for Regional Development (FNDR) financing that satisfy the project selection and prioritization criteria given in the operating regulations of the FNDR, regional governments and other public institutions involved in the public investment cycles in Chile (mainly the Ministry of Finance's Office of the Budget, the Ministry of Planning, the National Commission on the Environment, and their regional offices); (ii) institution-strengthening and management capacity building activities, including training activities; and (iii) studies.

2.3 The first CCLIP operation will be a performance-driven loan (PDL), under which disbursements are directly tied to the achievement and verification of outcomes. The first operation's outcomes—tied directly to its objective (see paragraph 2.1)—and indicators for monitoring them are summarized below:

(For more detail, see the performance matrix (Annex I) and the technical briefs for each indicator: 831673.)

| Outcomes | Indicators |
|---|---|
| 1. Regional governments empowered in their subnational leadership | Number of regional governments that have integrated citizen participation into preparation of their investment budgets |
| | Number of regional governments with at least one municipal institution-strengthening program underway |
| | Number of regional governments with funds earmarked for regional identity development projects |
| 2. Regional development approach implemented in subnational management | Number of regional governments that created planning zones |
| | Number of regional governments with initiatives identified from the planning zones |
| | National average of the percentage of initiatives under the Preliminary Draft Law on Regional Investment (ARI) included in the Public Program for Regional Investment (PROPIR) |
| | Percentage of PROPIR initiatives completed or underway |
| 3. Relevant regional and municipal management processes certified and constantly improving | Design and introduction of a certification and ongoing management improvement system |
| | Number of regional governments with certified processes |
| | Number of municipios with certified processes |

2.4 In order to achieve the objective and expected outcomes, the first operation has been structured around four areas of major focus:

**1. Strengthening of subnational agency management through certification and incentives-based systems**

2.5 Building sustainable management capacities at a subnational level is essential for a decentralization process that involves not only taking on new powers, but exercising them effectively and efficiently. Subnational institutional capacity is developed in two ways. The first is the design and implementation of a certification and incentives-based system that allows good regional governance to be documented and legitimized in a coordinated manner. The second is the identification and improvement of the critical management processes at the subnational level. Thus, the objective in this sphere of activity is improving the quality of subnational management, with an emphasis on regional government, through the introduction of standards and incentives that promote innovative drive into the relevant management processes.[10]

[10] *Relevant* or *critical process* is understood to be a process essential to regional governments in order to actually exercise their powers, as well as lead and coordinate their regions' development.

2.6 The government and the Bank have identified some aspects of subnational management that could qualify for certification. These aspects include subnational governance and management, financial management, project and program management, and institutional management. The certification model, in terms of the Chilean legal system, must involve: (i) municipios, where the emphasis might be on financial, institutional, and project management; (ii) regional governments, where the system's focus would be institutional, land-use and project management; (iii) offices of the regional and the provincial governors, where the focus would be institutional management; and (iv) deconcentrated agencies, where the focus would be subnational management. The certification model must: (a) identify the institutional authority that can guarantee fairness in the information it uses for evaluating management of subnational institutions and functions, as well as the independence, transparency, and credibility of the certification process; (b) prepare and develop methodologies and indicators that better reflect governance, efficacy, and efficiency; and (c) set standards,[11] targets and means of verification to evaluate management of subnational institutions and functions.

2.7 The existence of performance incentives for subnational institutions is a basic requirement for the success of a system to introduce ongoing management improvements in a quest for excellence. Based on the foregoing, the certification model's design must analyze the incentive options and evaluate their relevance for different subnational bodies and the evaluation methods proposed. This target area will be structured around three sets of activities: (i) design and introduction of certification and incentives-based systems; (ii) design and implementation of plans to strengthen management and build institutional capacity; and (iii) basic institution-strengthening (operational while the certification system is being introduced).

2.8 The first group of activities will include: (i) preparation of a matrix of institutions and management dimensions; (ii) identification of relevant processes; (iii) design of technical requirements/indicators/standards (expected outcomes); (iv) design and implementation of an incentives system within a framework of gradual, ongoing improvement; (v) design of a diagnostic assessment methodology to determine the capacity and skills gaps in institutions, comparing their current management and the desired development of critical processes; (vi) design of the evaluation methodology (inspections) for certification; (vii) design of the institutional and operational structure of the certification and incentives-based systems, identifying the entities and their roles (for example, regulatory, certifying, or implementing agencies) and the operational methods of such entities, bearing in mind that the certification and incentives-based systems to be designed under this program should

[11] The SUBDERE, with the assistance of ChileCalidad, has begun to draw up standards for municipal services management.

be complementary to those in effect;[12] (viii) support for the introduction of certification and incentives-based systems in their regulatory, institutional, operational and and capacity-building dimensions; (ix) design and implementation of a financial risk rating system for municipios that are considering the transition to private external credit rating; and (x) design and proposal of financial flexibility incentives and authorization for financial leasing, leaseback, advances and other transactions.

2.9 The second group of activities will include: (i) preparation of a diagnostic assessment to determine gaps demonstrated by institutions in relevant processes, according to the established indicators and standards; (ii) formulation of strengthening plans to eliminate gaps (depending on the particular situation, these plans will include actions geared toward process reengineering and automation—development of information systems for management—, introduction and improvement of procedures, implementation and improvement of instruments, introduction and strengthening of stakeholders in order to develop their roles and tasks, institutional capacity building, and hiring qualified staff); (iii) implementation of strengthening plans to eliminate gaps; (iv) completion of evaluation or audits for certification; (v) resources for financing incentives that include recognition of work done, devolution, administrative flexibility, funding institutional projects and programs, wage incentives, etc.

2.10 The third group of activities addresses the need for greater flexibility in providing resources for subnational management strengthening prior to introducing certification and incentives-based systems. The strengthening requirements may be issued by the regional governments, offices of the governor, municipios, or the Office of the Deputy Secretary for Regional and Administrative Development (SUBDERE) itself, according to the progress in designing the systems mentioned above. The actions include: (i) design of eligibility criteria for allocating resources for basic institution-strengthening and methodology for receiving requests from beneficiary public-sector entities; (ii) preparation of requests, based on preestablished guidelines, for institution-strengthening actions by regional governments, offices of the governor, and municipios; (iii) evaluation of requests by SUBDERE and the Office of the Budget (DIPRES); (iv) establishment of working agreements with municipios, offices of the governor and regional governments; and (v) implementation, monitoring, and evaluation of the institution-strengthening measures.

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[12] The orientation, objectives and challenges faced by the certification and incentives-based system organized under this program require that the current internal SUBDERE systems be reviewed, updated and integrated into a regime of ongoing improvement, transparency vis-à-vis the public, establishing indicators, standards, goals, and complementary means of verification.

### 2. Financing of the design of subnational management models and support for investment projects stemming from their introduction

2.11 The incipient progress in introducing subnational management has begun to create demand and expectations on the part of regional and municipal governments to implement subnational management models on a wider and more systematic basis. This area of activity should, under the legal and institutional framework now in effect, lead to innovations in subnational management models that include citizen participation. It should also serve as an incentive for supporting those regions that develop practices to enhance processes and that can be supported by instruments for participatory subnational management. In addition, this component should support those projects that promote regional identity, since it is through concrete initiatives that such identity will come about.

2.12 Stated briefly, this line of action seeks to provide incentives and support to regional governments in designing and introducing innovative management practices and models, and investment projects with a regional development approach. Specifically, three broad sets of activities will be included: (i) design and piloting of subnational management models; (ii) projects to strengthen regional identity; and (iii) investment projects identified through subnational management models

2.13 The first set of activities will include: (i) programs to strengthen capacity for the management of regional and local subnational development; (ii) support of innovative initiatives to integrate a regional approach with citizen participation into subnational governance; (iii) studies to analyze and evaluate national and international experience in subnational management and citizen participation; (iv) design, adjustment, and enhancement of instruments to introduce models for subnational management and citizen participation; (v) design, introduction and support for projects to introduce information and communication technologies linked to the subnational management models; and (vi) incorporation of planning, land-use, natural resource, and environmental management instruments into management models.

2.14 The second set of activities will include: (i) support for the development of strategies and programs to strengthen regional identity; (ii) support for activities to foster identification with a particular region, such as regional festivals, public festivities, touring regional performances and exhibitions, strengthening of regional media outlets, and (iii) studies and research on regional identity (such as design and preparation of educational materials linked to the history, geography and other aspects of regional cultural identity; regional schools of thought, regional debates, etc.)

2.15 Lastly, the third set of activities will create a mechanism to provide an incentive and support to investment projects identified through subnational management models. These projects will undertake investments in areas where the FNDR is already investing, but with a crosscutting subnational development approach.

Just as in previous Bank-financed programs with the FNDR, the operational mechanisms for preparing and evaluating the proposed investment projects for the program are those developed by the National System for Investments (SNI). This system has: (i) methodological manuals for preparing and analyzing investment projects; (ii) an integrated project databank with national coverage; (iii) regional and national entities for interagency coordination; and (iv) a critical mass of trained professional staff. Previous evaluation of the SNI and the project cycle have concluded that the system works well as a technical filter and produces a portfolio of projects which are satisfactorily executed and operated.[13]

2.16 The SNI has established economic analysis standards for each investment sector, based on cost-benefit analysis methodologies (net present value and social internal rate of return) or cost-efficiency criteria, depending on the sector. The same sector methodologies would be used for integrated regional projects (summing the outcomes of all sector activities under the project).

### 3. Support for devolution

2.17 There is a consensus that devolution to subnational levels is a cornerstone of Chile's decentralization, and that it is a highly complex process with technical, institutional and political dimensions. The conceptual model on which the distribution or attribution of powers to the regions is based has two main elements: functions and responsibilities. The analysis that was done detected a lack of consistency among functions, responsibilities, and resources for some powers assigned to regional governments.

2.18 Bearing this in mind, the objective of this line of action is to enhance the authority of regional governments, as well as to prepare and begin devolution to subnational governments of the new powers approved by the relevant authorities in a coordinated manner with the development of the certification and incentives-based system of subnational governance. Activities under this third line of action are grouped into four broad sets: (i) review of the regulatory and institutional framework related to enhancing devolved powers and supporting the introduction of solutions; (ii) devolution to subnational governments of the new powers approved by the relevant authorities; (iii) support for the reorganization of services in the regions, in response to the devolution process; and (iv) support for strengthening mechanisms and intergovernmental authorities that oversee the exercise of powers.

2.19 The first set of activities lends support for resolving issues tied to reforms of the regulatory framework that are affecting regional government management in developing their powers. To this end, the following are envisaged: (i) studies and analyses of institutional and regulatory changes; (ii) preparation of legal texts for

[13] Project report on the program to improve the efficiency and management of regional investment (loan CH-0161).

possible introduction as preliminary draft bills for regulatory framework laws; and (iii) support for implementation of these solutions.

2.20 The second set of activities includes: (i) support for development of the legal framework for devolving new powers, through funding of such activities as the design, analysis, and discussion of the devolution of functional powers to subnational governments; studies needed to review the regional government's legal frameworks and draw up the needed texts for their approval as draft regulations and preparation of a legal framework to ensure transfer of staff and physical plant, including regulations needed to manage human resources, as well as other actions; (ii) support for subnational government capacity-building to enable the effective assumption and management of devolved powers, through such actions as institutional adjustments and diagnostic assessments; preparation of the devolution plans and design of devolution processes; support for the preparation of draft devolution agreements, and their negotiation; creation of technical and policy teams in keeping with the requirements related to the exercise of new powers; development of work methods and procedural manuals to support the effective exercise of powers; and (iii) support for capacity-building in new regions for effective assumption and management of devolved powers as regards planning, subnational management and infrastructure. Strengthening measures will be aimed at training and preparing human resources to take on new powers.

2.21 The third set of activities is aimed at identifying and developing mechanisms for regional services to become more integrated with regional governments.

2.22 Lastly, the fourth set of activities will include: (i) designing and supporting the creation of intergovernmental monitoring mechanisms and bodies; (ii) sector studies to evaluate conditions and recommend regional countervailing or corrective measures; and (iii) establishing sector information systems that offer reliable, integrated information on the sector's workings throughout country.

**4. System for ongoing evaluation, knowledge management and strengthening of SUBDERE's institutional framework**

2.23 Given that the program envisages mainly subnational and process-based institutional innovation components and new management instruments, it is indispensable to include a solid reflection and documentation component. This will allow lessons learned and conclusions to be drawn, as well as actively encourage the replication of excellence practices directly associated with the program or developed alongside it, to heighten program impact. In addition, deepening decentralization in Chile will necessarily affect the role and institutional mission of SUBDERE. As a result, this line of action aims to create a system for ongoing evaluation and knowledge management, as well as to strengthen SUBDERE's policy-making and technical capacity.

2.24 Activities under this line of action focus on two areas: (i) developing a system for ongoing evaluation and knowledge management, and (ii) institutional strengthening of SUBDERE.

2.25 The first set of actions includes: (i) creating an observatory of the decentralization processes and strengthening strategies; (ii) organizing and studies that provide data and comparative information; (iii) designing and implementing integrated communication systems among the different entities involved; (iv) promoting twinning initiatives among subnational entities (horizontal transfer of good practices); (v) monitoring studies and evaluating different program components; (vi) designing an evaluating best practices gathered from different program components; (vii) establishing and granting management innovation awards for regional and local organization; and (vii) designing and introducing communication and publication policy related to the program and its components.

2.26 For SUBDERE institution-strengthening the following activities will be conducted:

a. Activities to enhance capacity for formulating and evaluating policies and programs: (i) promote strengthening of the functional area of formulating, analyzing, and evaluating policies and programs, through the introduction of cross-cutting mechanisms; and (ii) introduce new capacities for generating intelligence (analysis, evaluation, learning) promoting, inter alia, agreements with external entities such as universities.

b. Activities to strengthen mechanisms for interacting with subnational entities: (i) create and strengthen an interdivisional project team to design institution-strengthening programs; (ii) evaluate and review mechanisms for lending technical support to subnational governments, including the current functions of the Regional Control Units; (iii) design and implement technical-support mechanisms that are stable and close to subnational entities.

c. Studies and technical advise on institutional and organizational modernization that is consistent with new challenges.

d. Redesign and implementation of project and program administrative processes: reengineering the process for managing investment projects, including a new comprehensive project management system, and the possible reorganization of the administrative units involved.

e. Design and introduction of a data management system linked to administrative, financial, accounting, and communications management systems among regions and central services.

f. Strengthening of SUBDERE personnel's general and technical skills and hiring of qualified personnel for the program.

## C. Cost and financing

2.27 The CCLIP line totals US$400 million and will be executed over a period of eight years. The first individual loan will be a performance-driven loan (PDL) for $50 million. It will be executed over a period of five and a half years and disbursed in five tranches in accordance with the performance matrix in Annex I. Table II-1 below shows program costs.

**Table II-1: Program costs (US$)**

| Type of expenditure | US$ |
|---|---|
| 1. Measures aimed at achieving outcome targets (areas of activity and administrative expenditures) | 49,350,000 |
| 2. Performance verification | 600,000 |
| 3. Final evaluation | 50,000 |
| **TOTAL** | **50,000,000** |

# III. PROGRAM EXECUTION

## A. Borrower and executing agency

3.1 The borrower will be the Republic of Chile, and the program executing agency will be the Office of the Deputy Secretary for Regional and Administrative Development (SUBDERE) of the Ministry of the Interior.

## B. Findings of risk analysis for program execution

3.2 As an integral part of the operation's design a risk evaluation of program execution was conducted using the same methodology applied for Risk Evaluation 1 (RE1) when formulating the pilot program to make oversight procedures for operations in Chile more flexible and simple. The process for identifying risks in this operation is particularly relevant as it was conducted during project preparation and is a performance-driven loan (PDL), with which the executive agency has no previous experience. The evaluation described a "moderate-low" risk profile, with the principal risk factors being: (i) the need to have a program performance matrix that is simple, measurable and clearly defined; (ii) the need to have an appropriate management system to follow up on project execution; and (iii) the importance of appropriately consulting with parties involved to achieve their active commitment to the program's execution. The execution scheme that is proposed below has considered these risks, clearly seeking to guarantee the wholehearted commitment and involvement of the executing agency's personnel by creating project teams for program implementation. The following risk mitigation measures will also be introduced: (a) a detailed presentation during the start-up workshop on the performance-driven loan operational mechanism and the program performance matrix for parties involved in program execution; (b) development by the Country Office in Chile and the executing agency of a joint monitoring procedure of activities included in the program's annual work plan; and (c) completion of another risk evaluation after the program has begun, in order to verify progress on effectiveness of the proposed risk mitigation measures.

## C. Program execution mechanism

3.3 Program execution has a three-tier structure: management (strategic and executive), technical coordination and execution. The execution mechanism, which directly includes SUBDERE personnel in the management, coordination, and execution of the program, is motivated by one of the program's fundamental aims—to strengthen SUBDERE's capacity for exercising political and technical leadership in

the decentralization process. Furthermore, it furthers sustainability of decentralization measures and development of capacities beyond the program execution period.

3.4 Program **strategic management** will be in the hands of SUBDERE, which will ensure that program measures are consistent with the strategic focus of the agency in all aspects. The Committee's functions include: (i) coordinating policy with sectoral and regional bodies, as well as other relevant players; (ii) ensuring timely fulfillment of program aims, targets, and expected outcomes; and (iii) approving the program execution plans.

3.5 Program **executive management** will be incumbent upon the SUBDERE Regional Development Division Chief, who will lay out general program and component guidelines, and will also be responsible for executing them and fulfilling their targets and objectives. Executive management functions include: (i) nominating and supervising the technical coordinator, the chief of the program administrative unit, and the project team leaders; (ii) submitting the work plans for approval by strategic management; and (iii) ensuring compliance with the program targets and objectives set forth in the loan contract.

3.6 Program **technical coordination** falls to the Technical Coordinator, whose functions will include: (i) consolidating the program's work plans in conjunction with the project team leaders and submitting these plans to program management; (ii) coordinating and supervising the general progress of the program and each area of activity; (iii) overseeing compliance of program performance targets through a monitoring and evaluation system; (iv) preparing semiannual program execution reports; and (v) ensuring compliance with procedures set forth in the loan contract; and (vi) interfacing with the Bank for operational, administrative and financial purposes. The Coordinator may be a person who works for SUBDERE or a consultant hired with program resources.

3.7 **Execution** of program activities will be the responsibility of project teams. These teams will be created based on: (i) program activity areas; or alternatively, (ii) outputs to be generated, according to the executing agency's criteria. The teams' make up may be modified according to these criteria during the program, in which case the executing agency is to inform the Bank beforehand. Each team will be headed up by a team leader, who will report to the Technical Coordinator. The project teams will be made up by different divisions, departments, and units, and may have support from external consultants. In undertaking their assignments, the teams will work in close coordination with SUBDERE divisions. Project team functions will include: (i) drawing up work plans within their area of responsibility and monitoring the plans' execution; (ii) preparing the terms of reference and technical specifications for procurement of goods and services with program resources; (iii) requesting from the technical coordinator procurement of the goods and services required to conduct program activities; and (iv) providing program technical coordination with all the information needed to monitor, evaluate, and inspect program execution.

3.8 Execution of the needed administrative processes to conduct program activities will be the responsibility of the PAU, which reports directly to the Program Technical Coordinator. The PAU will include, at the very least, specialists in finance-accounting, procurement, legal affairs, and monitoring and oversight, who may come from different SUBDERE divisions and departments directly involved in program administrative management or may be external consultants. Under the program, the PAU will have the following functions: (i) supporting project teams in drawing up annual work plans in their area of responsibility and in preparing the terms of and technical specifications of goods and services to be procured with program resources; (ii) managing the selection and procurement of goods and services required for program execution, in accordance with approved annual work plans; (iii) conducting the program's financial administration; (iv) supervising maintenance of financial and accounting records tied to the use of loan proceeds; (v) preparing terms of reference, and selecting and contracting the firm which will conduct the program performance verification; (vi) consolidating all documentation related to the reporting required for each program tranche release, including presentation of financial statements; and (vii) lending support for the timely fulfillment of contractual conditions.

## D. Monitoring and evaluation

### 1. Monitoring

3.9 On 10 January 2006, Bank Management authorized a pilot program to make oversight procedures for operations in Chile simpler and more flexible. Program monitoring will be conducted in line with this, which means simplifying monitoring procedures, adapting them to the specificities of the PDL.

3.10 The attached performance matrix (Annex I) will be the cornerstone of program monitoring and evaluation. The executing agency will implement a monitoring and evaluation system that contains a database with information on performance indicators and the investment required for their achievement.

3.11 As a part of the oversight system, the Bank's Country Office in Chile will: (i) maintain ongoing contact with the project team on critical aspects of program execution; (ii) prepare with the executing agency, as of the program start-up workshop, a joint monitoring procedure of activities included in program execution plans (see paragraph 3.4); and (iii) organize, in conjunction with the executing agency, field visits and semiannual program progress meetings, whose minutes will be the semiannual monitoring report. These reports will contain at least the following information: (i) program cumulative achievements, based on its targets; (ii) operational problems discovered and their solution; and (iii) level of coordination among different national and subnational agencies involved in the program. The Country Office in Chile, using the information furnished by the borrower, will update the project performance monitoring report (PPMR), which will be drawn up to show the program's features based on outcomes.

### 2. Evaluation

3.12 It was agreed that an external final evaluation of the program would be done, once at least 80% of proceeds have been disbursed or the fifth tranche has been released, whichever occurs first, for purposes of: (i) evaluating the performance of the certification and incentives-based system; (ii) evaluating the level of capacity development on the part of regional governments; (iii) analyzing the merits and limitations of the operation in furthering the aims of decentralization and institution-strengthening at a subnational level; and (v) infer lessons to apply them to future projects. This evaluation will be conducted by external consultants, in accordance with terms of reference to be previously agreed upon between the borrower and the Bank. The corresponding fees will not be part of any of the operation's tranche releases nor will they be conditioned to the achievement of any outcomes agreed upon. Financing for these activities will be considered under the program's eligible expenditures.

### 3. Performance verification

3.13 An independent firm acceptable to the Bank, selected and contracted in accordance with Bank rules, will carry out the program performance verification, which will be paid for with loan proceeds. The corresponding fees will not be part of any of the operation's tranche releases nor will they be conditioned to the achievement of any outcomes agreed upon. Financing for these activities will be considered under the program's eligible expenditures. Verification will center on achievement of three main objectives: (i) issuing a technical opinion on the accuracy, reliability, validity and consistency of the information corresponding to performance indicators; (ii) establishing the value of performance indicators defined in each tranche (see performance matrix in Annex I) and calculating the degree of overall compliance with each tranche's targets (see paragraph 3.14); (iii) verifying that expenditures submitted by the executing agency for reimbursement are consistent with those on the list of eligible program expenditures (see the list of eligible expenditures: 827224). Before each disbursement request, the firm must conduct and present a performance indicator verification report (see proposed terms of reference: 831679). In order to facilitate this verification, descriptive technical briefs have been drawn up for each performance indicator (831673). **The selection and contracting of a firm to conduct verification will be a condition precedent to the first disbursement.**

3.14 In order to determine compliance with performance targets, the firm conducting verification will calculate a percentage of overall compliance with the tranche's targets, according to the relative weight given to each target, as illustrated in Annex I. The weight for each target will be assigned only in the event that the target measured has been fulfilled, as to the contrary the assigned weight will be zero. If the level of overall compliance of the tranche is equal to or greater than 70%, the pertinent release will go forward. If the level of compliance is below 70% there will be no release. Use of relative weights for targets and establishment of minimum

percentages for compliance will prevent any potential partial noncompliance with targets from stopping tranche release and hindering program progress.

### 4. Financial audits

3.15 Annual financial audits will be conducted by the Office of the Comptroller General of the Republic (CGR), in accordance with its legal authority and applicable Bank rules and procedures. The CGR will also review the supporting documentation for disbursements through ex post review and sampling.

## E. Execution and disbursement periods

3.16 The program will be executed over a period of five-and-a-half years, in accordance with a tentative plan that is described below. The initial disbursement (advance) of up to 15% of the loan amount will be for program startup. This advance will then be proportionally deducted from the subsequent tranches, in keeping with Table III-2 below.

3.17 The program will have five tranche releases, in addition to an advance in year one. Subsequent to the advance, all disbursements will be made once the pertinent performance verification has examined the degree of compliance with performance targets agreed upon between the executing agency and the Bank, pursuant to paragraph 3.14, and eligibility of expenditures presented by the executing agency. The executing agency will send the Bank the disbursement request, including information on expenditures eligible for reimbursement. In the event the executing agency requests an advance that is less than the 15% established, the difference will be distributed in equal proportion in the program's five tranche releases.

**Table III-2. Tentative disbursement schedule (US$)**

| | Advance | Tranche I | Tranche II | Tranche III | Tranche IV | Tranche V | Total |
|---|---|---|---|---|---|---|---|
| IDB disbursement | 7,500,000 | 6,000,000 | 10,000,000 | 10,000,000 | 9,000,000 | 6,850,000 | 49,350,000 |
| Expenditures to be verified | | 7,500,000 | 11,500,000 | 11,500,000 | 10,500,000 | 8,350,000 | 49,350,000 |
| Performance verification | | | | | | | 600,000 |
| Final evaluation | | | | | | | 50,000 |
| **Total** | | | | | | | **50,000,000** |

3.18 The advance will be given after the respective loan contract enters into force and after fulfilling the following conditions precedent thereto: (i) create a program administrative unit (PAU); and (ii) assign responsibilities for strategic and executive program management and designate program technical coordination and project teams through the pertinent resolutions, hirings, or appointments.

3.19 The Bank will disburse funds to an account of the Office of the Treasurer of the Republic (TGR), authorized for such purposes. The Ministry of Finance, in accordance with the financial programming presented by the executing agency in its

annual budget, will duly authorize the TGR to transfer funds for appropriate program execution.

## F. Procurement

3.20 In accordance with Bank policies for performance-driven loans (document GN-2278-3), the procurement of goods and services with program resources will adhere to the borrower's national procurement practices and procedures, provided that these are governed by the principles of competition, economy, transparency, equity, publicity and due process. The only exception will be contracting of the firm to conduct the performance assessment, which will follow standard Bank procurement procedures.

## G. Recognition of expenditures

3.21 The executing agency has requested that the Bank retroactively recognize up to a total of US$2 million in expenditures incurred for activities related to the achievement of program outcomes. The Bank will recognize expenditures made during program preparation—which will be covered under the first tranche release—thus fulfilling all rules relating to disbursements in paragraphs 3.13 and 3.17.

## H. Currency

3.22 The CCLIP line will draw on resources from the Ordinary Capital of the Single Currency Facility in U.S. dollars and would be subject to the Local Currency Facility (LCF) (document GN-2365-2 of 4 November 2005). So as to minimize exchange risk, the Government of Chile would have the right, under the LCF, to have disbursements and outstanding balances for projects included in the credit line be converted for disbursement in pesos. In order to increase financing options for borrowers, conversion of disbursements and outstanding balances into local currency for funded projects would be subject to two financial conditions in addition to those stipulated in the LCF: (i) more flexible repayment profiles for disbursements in local currency, as described in section 2(a) of Annex II; (ii) pricing based on actual funding costs incurred by the Bank if sourced through bond issues, in keeping with section 2(b) of Annex II. The conversion into local currency of disbursements and outstanding balances for the projects included in the line will require ***an exception to the LCF***, inasmuch as the ***currency substitution clause***[14] is inapplicable (see Annex II, section 3).

[14] This clause stipulates that, in the event the Bank's access to the local currency were interrupted and it could not find alternative financing, the Bank may revert the local currency conversion back to the original convertible currency of the loan..

# IV. VIABILITY AND RISKS

## A. Institutional viability

4.1 As noted in chapter 1, the Office of the Deputy Secretary for Regional and Administrative Development (SUBDERE) has successfully executed four successive stages of Bank programs over a period of almost 20 years. The analysis conducted suggests that the program is extremely viable from an institutional viewpoint. Firstly, evaluations of previous stages conducted both by external consultants, (mainly through final and mid-term evaluation reports) as well as Bank personnel (draft of the Project Completion Report), highlight the SUBDERE's highly effective execution capacity and its appropriate management controls. The institutional capacity assessment system (ICAS) concluded it was highly probable—the highest rating possible—the project would achieve its objectives. Progress in implementing the project was considered satisfactory and the mid-term evaluation characterized restructuring efforts as very satisfactory. Furthermore, the ICAS prepared for this project states that the SUBDERE has an institutional capacity that is more than adequate for executing any type of Bank operation, an assertion that has been borne out in each and every one of the programs completed to date.

4.2 The highly satisfactory execution of previous stages clearly shows the sophisticated institutional capacity that exists in the Chilean public sector. This capacity, however, is asymmetrical, being concentrated in the central government, which implies two risks. The first risk is the central government agencies' potential reluctance to transfer powers and capacities. Nevertheless, this risk is mitigated by the government commitment to decentralization. The second risk is the high turnover of regional governors, who are directly appointed and dismissed by the Office of the President, which could have an impact on the actual taking over of powers and progress of decentralization. This risk is lessened by the relative stability of technical team in the regions, particularly at the SEREMI, as well as the technical teams that make up the SUBDERE.

## B. Benefits

4.3 This program offers two kinds of benefits. First of all, it deepens the decentralization process enabling better coordination among different government levels and thus opening up participatory mechanisms regarding the public account and management control. The coordination between sectors and between municipal and regional governments will allow for a more efficient use of financial, human, and organizational resources available in the region. The main beneficiaries of the first project are subnational levels of government, whose progress will be measured by the level and kind of powers actually devolved and the institutional capacity actually introduced. Secondly, it will fund subnational management programs and in this context specific projects that have a positive impact on people's way of life and that support regional economic development under a strategic regional development framework.

## C. SEQ and PTI classification

4.4 This operation does not qualify as a social-equity enhancing operation or a poverty-targeted investment as described in the Eighth General Increase in the Resources of the Inter-American Development Bank (document AB-1704). The program has potential indirect environmental impacts, and therefore the strategic environmental impact assessment is described in paragraph 4.5.

## D. Environmental and social impacts

4.5 From an environmental and social viewpoint, investments made under the program's second line of action will have a positive impact on the regions and communities involved. The projects that the program finances—as in the case of all those financed by the FNDR—may moderately affect the environment, and in the case of adverse impacts, their mitigation or elimination is regulated through the SEIA environmental impact assessment system. The SEIA system stipulates the guidelines to be followed and defines the instruments to be used in assessing environmental impacts of projects funded by the program and recommends measures and actions needed to prevent, mitigate and compensate for adverse environmental risks and impacts. Article 10 of Law 19300 of 1994 (Environment Act) identifies what projects must be included in the system and defines whether these projects require an environmental impact statement (EIS) or an environmental impact assessment (EIA). Project evaluations and preparation of EIS and EIA are incumbent on the Regional Commissions on the Environment (COREMA). The SEIA system has done a satisfactory job of conducting environmental evaluations of projects funded under previous Bank operations with the FNDR, and their criteria and operations have been consistent with Bank environmental regulations and requirements.

4.6 It should be noted that the National Investment System managed by the Ministry of Planning and Cooperation (MIDEPLAN) demand that all investment projects (including those financed through the FNDR) obtain beforehand an Environmental Qualifying Decision from the SEIA system. As a result, all investment projects under the program must go before the SEIA system and have received their pertinent environmental qualification.

4.7 There will be appropriate coordination with actions under Programa Orígenes Phase II: Integral Development Program for Indigenous Peoples (loan CH-L1014) in regions I, II, VIII, IX and X that are directly linked to program activities and aims. Namely, there will be coordination on: (i) measures to improve the regional subnational planning process (line of action 1) and subnational management design models (line of action 2) with actions for participatory planning and preparation of Integral Development Plans (IDP) included in Programa Orígenes components 1 and 5; and (ii) actions to promote regional identity with activities to strengthen indigenous peoples' cultural identity under Programa Orígenes component 2.

## E. Special considerations

4.8 As an exception to the Bank policy on CCLIP lines (document GN-2246-1), it is requested that the CCLIP line also finance individual loans in all sectors eligible for FNDR funding, regardless of whether they have previously received Bank financing. It is further requested as an exception to policy that the CCLIP line be able to finance projects without such projects having to comply with the requirement that previous projects included in the line have committed at least 75% of funds, or disbursed 50% thereof (see rationale for these requests in paragraph 1.30). Regarding the Local Currency Facility (document GN-2365-2 of 4 November 2005), an exception is requested in terms of the inapplicability of the currency substitution clause (see explanation of such request in paragraph 3.22). Two additional financial conditions are also called for, in addition to those set forth in the Local Currency Facility: (i) more flexible repayment profiles for disbursements in local currency; and (ii) pricing based on real funding costs incurred by the Bank if sourced through bond issues (see paragraph 3.22).

# PROGRAM TO SUPPORT SUBNATIONAL GOVERNANCE IN CHILE (CH-L1018)
## PERFORMANCE MATRIX[1]

| Outcome | Indicators (Suggestions to select) | 2006 Baseline | Targets per tranche and % weight | | | | | Means of verification |
|---|---|---|---|---|---|---|---|---|
| | | | I | II | III | IV | V | |
| 1. Regional governments empowered in their subnational leadership | Number of regional governments that have integrated citizen participation into preparation of their investment budgets | 1 | - | 7 (10%) | | 13 (10%) | - | Charter of citizen participation body, ARI |
| | Number of regional governments with at least one municipal institution-strengthening program underway | 0 | - | 2 (10%) | 4 (15%) | 8 (10%) | 13 (10%) | Regional government/ municipio agreement |
| | Number of regional governments with funds earmarked for regional identity development projects | 0 | - | 7 (15%) | - | 13 (10%) | - | Meeting minutes from the regional governments |
| 2. Regional development approach implemented in subnational management | Number of regional governments that have created planning zones | 2 | 6 (20%) | 7 (10%) | - | - | - | Official letter and meeting minutes from the regional governments creating the zones |
| | Number of regional governments with initiatives identified from the planning zones | 1 | 2 (15%) | 6 (15%) | 13 (15%) | - | - | Records of participation in regional bodies |
| | National average of the percentage of Preliminary Draft Law on Regional Investment (ARI) initiatives included in the Public Program for Regional Investment (PROPIR) | n.a. | 60% (30%) | - | 70% (30%) | - | 80% (25%) | Official documents presenting ARI and PROPIR. |
| | Percentage of PROPIR initiatives completed or underway | n.a. | - | 60% (10%) | - | 70% (20%) | 80% (15%) | PROPIR, quarterly reports from the regional governor on PROPIR program execution |
| 3. Relevant regional and municipal management processes certified and constantly improving | Design and introduction of a certification and ongoing management improvement system | System not developed or implemented | System designed and approved (35%) | - | - | - | - | SUBDERE notice on system implementation, published in a daily newspaper with national circulation. |
| | Number of regional governments with certified processes | 0 | - | 2 (30%) | 4 (30%) | 8 (35%) | 13 (35%) | Reports from the certifying agency |
| | Number of municipios with certified processes | 0 | - | - | 10 (10%) | 20 (15%) | 40 (15%) | Reports from certifying agency |

[1] In the targets per tranche and % weight column, the figure in parentheses indicates the target's percentage weight in calculating the percentage of overall fulfillment of targets in each tranche, as described in paragraph 3.14.

## CURRENCY

1. The conditional credit line for investment projects (CCLIP) would draw on resources from the Ordinary Capital of the Single Currency Facility in U.S. dollars and would be subject to the Local Currency Facility (LCF). So as to minimize exchange risk, the Government of Chile would have the right, under the LCF, to have disbursements and outstanding balances for projects included in the credit line be converted for disbursement in pesos. Specifically, under the LCF (document GN-2365-2):

    a. Loans continue to be approved in one of the four currencies offered under the Single Currency Facility (Swiss francs, euros, Japanese yen or U.S. dollars), as well as in U.S. dollars under the Dollar Window, Emergency Lending Facility, or Private Sector Lending.

    b. Borrowers may request that: (i) all or some future loan disbursements be made in local currency; and (ii) outstanding balances that already exist be converted, on a case by case basis, into local currency; and (iii) in both cases, the Bank provide financing denominated in local currency, subject to currency availability and market conditions.

    c. The following requirements must be met for each transaction: (i) the borrower must have obtained the appropriate government authorizations; (ii) the Bank must source local currency funding in the most efficient manner possible through the various mechanisms available on the market,[1] (iii) financial terms offered must reflect the best prevailing market conditions for the kind of funding requested by the borrower at the time of any given disbursement or conversion; and (iv) it must be possible to hedge the financial risk.

    d. The Bank hedges this risk by matching the cash flow of disbursements in local currency with the cash flow of their underlying funding obtained on the market (matching finance) on the basis of two pillars: (i) maintenance of the Bank loan profile (as regards repayment terms and schedule); and (ii) Management's recommendation to the Board of Executive Directors (explained in the Facility) that, as a general rule, the Bank refrain from carrying liquidity in local currency.

2. In order to increase financing options for borrowers, conversion of disbursements and outstanding balances into local currency for projects funded under the credit line would be subject to ***two financial conditions in addition to those stipulated in the LCF***:

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[1] The Bank: (i) will decide on the most efficient manner, based on cost, of funding the Borrower's requests in terms of size and type of financing (bonds or *swaps*); and (ii) has the right, pursuant to the loan contract, to not issue [bonds] if the market conditions are unfavorable.

a. **Repayment profile**. When requesting a conversion, the borrower may set the repayment schedule and terms in relation to final maturity and weighted average life (WAL).[2] Thus, under the program:

- A matching finance design will be maintained, but based on:

- (i) the general recommendation that the Bank refrain from carrying liquidity in local currency; and (ii) adaptation of the Bank loan profile to the lending terms it obtains on the market.[3] *This would enable the Bank to offer the borrower financing in local currency under the best financial terms it could obtain on the market*;

- Subject to market conditions, the Bank would modify the profiles of each disbursement such that each one could have a different repayment structure with respect to the final maturity and WAL of the original contract. Nevertheless, this flexibility would be limited by the restriction that the WAL and the final maturity of the modified repayment periods for disbursements, as a whole, do not exceed those of the original contract. *Thus, repayment structures could be bullet repayments (a single payment at maturity) with shorter maturities and/or extensions of the grace period without, however: (i) adversely affecting the Bank's lending authority or total equity-to-loan ratio (TELR); or (ii) giving the borrower preferential financial terms as compared to other Bank borrowers*. (See "More flexible loan repayment schedules," 832224).

- The Borrower and the Bank would modify the design of repayment structures by mutual agreement, so as to ensure that they would not affect the fulfillment of program objectives.

b. **Pricing based on actual funding costs**. Where operationally possible (essentially where the Bank can source funding in local currency by issuing bonds): (i) it would be possible for the Bank to pass through to the borrower the actual costs of sourcing funds; and (ii) the rate charged on the respective conversions would reflect the costs of sourcing funds plus the spread applicable to Ordinary Capital loans. *Thus, the risk premium provided under the LCF would not apply, and the repayment profiles could be made more flexible* (See "Pricing based on the Bank's actual funding costs if sourced through bond issues" 832235).

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2 This is defined as the weighted length of time from the loan signature date until repayment of the respective installments calculated over all outstanding disbursements in local currency.

3 It is a general right of Bank borrowers to shorten the repayment profile of their operations.

3. The conversion into local currency of disbursements and outstanding balances for the projects included in the line will require ***an exception to the LCF***, inasmuch as the ***currency substitution clause***[4] is inapplicable. In this regard:

   a. The Bank's access to local currency funding could only be interrupted in the event that: (i) the swap market was its source of funding; (ii) the counterparty defaulted on such operations; and (iii) such default was combined with an interruption of market access in which the Bank could not substitute its funding in local currency, after doing everything possible and subject to its internal policies and guidelines (for the remainder of disbursement maturity and with the same type of base rate).

   b. In the event that access to funding were interrupted, the risk exposure for the Bank would consist of the likelihood of such an event occurring, in addition to the potential impact (see: "Financial risks if no currency substitution clause is included in local currency loan contracts," 832228). Thus:

      - The likelihood of interruption is considered very low, inasmuch as:

        - Where the Bank sources funds through bond issues, there is simply no likelihood that its access to funding will be interrupted;

        - If the Bank raises funds through currency swaps, the likelihood of counterparty default is considered low, since (i) the Bank follows strict policies that require counterparties to have a solid credit rating from credit rating agencies (A+ or better); (ii) the downgrading of a counterparty's high credit rating to a default rating generally takes more than five years on average, which gives the Bank time to hedge such risks by replacing the counterparty; and (iii) the likelihood of an interruption of market access hindering replacement of the swap counterparty while its credit is being downgraded is considered even lower.

      - The impact is considered limited due to the fact that the existing restrictions on credit exposure with a swap counterparty establish a ceiling that requires the Bank to diversify its risk among several counterparties and limits the amount of exposure to each. Nevertheless, if access to funding were interrupted in a swap transaction, the potential loss for the Bank could turn out to be a substantial portion of the swap amount with the counterparty (see "Financial risks if no currency substitution clause is included in local currency loan contracts," 832228).

[4] This clause stipulates that, in the event the Bank's access to local currency is interrupted and it cannot find alternative financing, the Bank may revert the local currency conversion back to the original convertible currency of the loan.

In any event, if the Bank were to face a foreign exchange mismatch stemming from an interruption in access to local funding under the scenarios analyzed above, (i) it would be a result of particular circumstances that subsequently arose in the banking sector, related to initial transactions designed to prevent such a mismatch; (ii) it would not be in violation of the Agreement Establishing the Bank, according to an opinion issued by the Bank's Legal Department on 8 August 2006;[5] (iii) it could engender financial risks that would have to be addressed with effective risk management criteria; and (iv) it would not entail continued disbursements in local currency, given that conversions are always subject to market availability.[6]

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5 The Agreement Establishing the Bank prohibits the Bank from carrying a foreign exchange mismatch on its balance sheet.

6 Both the additional financial conditions and the previous exceptions will be included in the revised LCF that is to be submitted in due course to the Board of Executive Directors.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

RESOLUTION DE- /06

Chile. Conditional Line of Credit to Support Subnational Management in Chile

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreement or agreements as may be necessary with the Republic of Chile, to establish a Conditional Line of Credit to Support Subnational Management in Chile, hereinafter referred to as the “Credit Line”, of up to the sum of US$400,000,000, chargeable to the resources of the Single Currency Facility of the Ordinary Capital of the Bank.

2. That the establishment and utilization of the Credit Line shall be carried out in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects Lending Instrument established by Resolution DE-58/03 of July 16, 2003; and (b) the specific provisions set forth in document GN-2246-1.

3. That the amounts authorized to finance individual operations chargeable to the Credit Line shall be granted as individual loans subject to the usual financial terms and conditions applicable to financing from the resources of the Single Currency Facility of the Bank’s Ordinary Capital, in force at the time that the individual operation is approved, which shall be specified in the executive summary of the corresponding loan proposal.

4. That the Bank may only sign an agreement or agreements with the Republic of Chile to grant financing for the first individual operation after the Credit Line agreement or agreements between the Republic of Chile and the Bank enter into force.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE- /06

Chile. Individual Loan /OC-CH to the Republic of Chile
Utilization of the resources of the Conditional Line of Credit for Investment Projects
established by Resolution DE- /06
Program to Support Subnational Management in Chile

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to utilize the resources of the Conditional Line of Credit for Investment Projects approved pursuant to Resolution DE- /06, by entering into such contract or contracts as may be necessary with the Republic of Chile, as Borrower, for the purpose of granting financing for an individual operation for cooperating in the execution of a program to support subnational management in Chile. Such financing will be in the amount of up to US$50,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Executive Summary of the Loan Proposal.