

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CHILE

TECHNICAL COOPERATION PROPOSAL

**STRENGTHENING THE INSTITUTIONAL CAPACITY OF THE
OFFICE OF INTERNATIONAL ECONOMIC AFFAIRS (DIRECON)**

(CH-L1009)

PROJECT REPORT

This document was prepared by the project team consisting of: Dino Capriolo (RE1/SC1), Project Team Leader; Carolyn Robert (INT/ITD); Valnora Leister (LEG/OPR); Eduardo Rodal (SDS/ICT); Gloria Coronel (COF/CCH); Jorge Venegas (COF/CCH); and Margarita Fuentes (RE1/SC1), who assisted in document production.

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EXECUTIVE SUMMARY

Borrower:	Republic of Chile	
Executing agency:	Office of International Economic Affairs, a government entity of the Ministry of Foreign Affairs	
Amount and source:	IDB (OC):	US\$5 million
	Local:	US\$1.25 million
	Total:	US\$6.25 million
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	4 years
	Disbursement period:	3.5 years
	Interest rate:	Libor-based
	Inspection and supervision:	0.00%
	Credit fee:	0.25%
	Currency:	U.S. dollars from the Single Currency Facility
Objectives:	<p>The project's general objective is to help make the country's tradable goods and services more competitive and enhance its trade dealings. The specific objective is to modernize the Office of International Economic Affairs (DIRECON), a government entity of the Ministry of Foreign Affairs, so that it can better: (i) help to meet and effectively enforce commitments made under bilateral, regional, and multilateral trade agreements; and (ii) develop and implement policies, programs, and strategies to capitalize on opportunities arising from international agreements to which Chile is signatory.</p>	
Description:	<p>Project activities in pursuit of these objectives are grouped into four components:</p> <ol style="list-style-type: none"> 1. Strengthen the organizational structure of operations for the administration and implementation of trade agreements (US\$504,635). This component will strengthen DIRECON's capacity to implement, administer, and evaluate trade agreements through the following activities: (i) design a strategic plan to 	

- better enable DIRECON to implement and administer agreements, reflecting a shared vision and organizational structure with functions and job descriptions that meet DIRECON's new requirements; the plan will also include re-engineering and enhancement of the processes, activities, outputs, and human resources necessary to fulfill this function; (ii) implement the strategic plan, including the design and institution of a new system for results-driven planning and strategic management; and (iii) design and implement an annual program for DIRECON staff to receive refresher training and hone their skills in areas related to the administration and implementation of trade agreements.
2. Support compliance with trade agreements and commitments (US\$1,369,010). This component will support DIRECON in compliance with, and effective enforcement of, commitments made and agreements entered into by Chile, through the following activities: (i) develop and implement a matrix system to identify and track all commitments made by Chile and its counterparts in trade agreements; (ii) specialized technical advisory support, including methodology development, for ongoing, systematic evaluation of the economic, social, and legal impact of trade agreements; (iii) develop and implement a mechanism to detect, track, anticipate, and handle trade conflicts and disputes, along with a program to train DIRECON staff to handle trade conflicts and disputes; (iv) specialized technical assistance to identify and design mechanisms to promote joint business ventures with other Latin American countries under free trade agreements (FTAs) and other trade agreements, and their respective rules of origin (Chile as platform country); and (v) develop and institute a registry to identify business opportunities arising from trade agreements, including workshops with the private sector.
 3. Capitalize on opportunities arising from trade agreements (US\$1,753,090). This component will deepen export development and help to integrate Chile's regions into foreign trade through the following activities: (i) strengthen and implement the program known by the slogan, "Chile is positioning itself in the global economy from its regions up" ("Chile piensa su inserción internacional desde las regiones"), which will include: new and updated regional studies to identify clusters with export potential in each of the country's regions; the design and implementation of action plans to spur development of these clusters, including actions to foster and solidify partnerships and avenues for ongoing dialogue among businesses and public/private entities, as well as cofinanced export promotion activities such as international market studies; (ii) implement three pilot export promotion programs (multisector regional matchmaker event, "coaching" of

small and medium-sized business by successful companies, and access to international markets for small and medium-sized high-technology companies); (iii) strengthen trade management capacity at Chile's trade offices and other representative offices abroad; (iv) develop and institute mechanisms to raise awareness and disseminate information within civil society; and (v) design and conduct a national survey to assess knowledge and application of trade agreements by Chile's export sectors and other productive sectors.

4. Enhance processes and information technology (US\$1,248,150). This component will upgrade and enhance corporate information and communication systems, to strengthen DIRECON's management capacity, through the following activities: (i) supplement and validate the Information Technology Master Plan (ITMP), including preparation of bidding documents; and (ii) implement the ITMP by: (a) putting a technology platform in place for new information and communication technologies; (b) upgrading existing operating systems and other new systems identified in the ITMP (classified as dissemination, internal collaboration, customer service, access to outside information, development and integration, administration, and training), so as to enhance the performance of DIRECON's various units; (c) interrelating and integrating information systems with the different users of the services; (d) preparing manuals in electronic format for each information system; (e) designing and implementing a comprehensive training program for different areas and levels of technological specialization; and (f) enhancing mechanisms for information access, to encourage civil society participation in trade policy management, including development of websites with information in Spanish and English.

**Special
contractual
clauses:**

Conditions precedent to the first disbursement: DIRECON will provide evidence that: (i) the project steering committee has been established (see paragraph 3.7); (ii) a project executing unit has been set up within DIRECON, and staff selected and hired or assigned to it (paragraph 3.7); (iii) the project Operating Regulations have entered into force (paragraph 3.7); and (iv) the annual work plan (AWP) for the first calendar year of project execution is ready (paragraph 3.13).

Special contractual condition for execution. DIRECON will deliver the AWP for the following year of project execution to the Bank no later than 30 days prior to the end of the calendar year (paragraph 3.13)

The Bank's country and sector strategy:

The Bank's country strategy with Chile assigns priority to activities in three areas: (i) support for increased competitiveness; (ii) reduction in social and regional inequalities; and (iii) modernization of the State. The proposed project fits into this strategy. Its support for the development of monitoring and evaluation tools will ease implementation of international commitments in that area, so that the private sector can better capitalize on new market opportunities as they arise.

Coordination with other multilateral development agencies:

The Bank is the only multilateral development agency supporting the country's efforts to implement and apply trade agreements and promote exports (paragraph 1.19).

Environmental and social review:

The project will contribute to the implementation and effective enforcement of commitments made by the Government of Chile under international trade agreements. Thus, it will support compliance with environmental requirements under treaties and trade agreements, which are essentially consistent with Chile's broad, clear regulatory framework. The operation is therefore expected to have an indirect positive impact on the environment.

In addition, the substance of the trade agreements entered into by the government were the subject of extensive in-country consultation. Implementation of the agreements would be approached in the same spirit. The proposed project will widely disseminate information on business opportunities for all participants in the country's economy and all regions, thereby ensuring that all sectors feel the expected positive impact.

Benefits:

The project will better equip DIRECON to administer and implement trade agreements for more efficient management of foreign trade policy. It will also help to enhance DIRECON's coordination with the private sector, civil society organizations, and public institutions involved in international trade, especially in the regions, by instituting and operating a network of information and interactive consultation services on regulations, procedures, policies, and trade promotion tools.

In terms of making Chile's private sector more competitive, the project will also promote the development and implementation of innovative tools for trade promotion. These tools will provide ongoing coordination at the regional level to support sectors—some already strong producers and some with great potential—made up of businesses too small to easily access foreign markets individually.

In terms of management, the activities relating to DIRECON's organizational structure for trade agreement implementation and administration will contribute to better internal coordination among DIRECON units and with other government agencies involved in foreign trade. The result will be simpler, more flexible procedures and decision-making with a direct positive impact on the private sector and other sectors of society.

The program also includes activities to raise awareness in different parts of the country of the importance of Chile positioning itself successfully in the international economy. In the medium and long term, this will help to broaden the base of human resources in both public and private sectors who are firmly committed to entering the global marketplace and to the principles and direction of the country's foreign trade policy. Especially important are the innovative activities to raise awareness within civil society and the incentive for academic and professional development in the area of foreign trade in the regions.

Risks:	Resistance to change. DIRECON's strengthened management capacity will be the product of instituting an effective organizational and functional structure of operations for the administration and implementation of trade agreements, including new planning and strategic management systems and information technologies. DIRECON's human resources must therefore be receptive to structural changes, or they may not be made fully or efficiently. To minimize this risk, a series of training and awareness activities have been planned for DIRECON staff on management systems and the organizational structure for trade agreement administration.
Poverty-targeting and social sector classification:	This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704), nor does it qualify as a poverty-targeted investment (PTI) (paragraph 4.5).
Exceptions to Bank policy:	None.
Procurement:	Bank policies and procedures will be followed for the procurement of goods and consulting services to be funded by the project. Specifically, Bank policies and procedures will be followed for the contracting of consulting services. Procurements at or above the thresholds of US\$350,000 equivalent for goods and US\$200,000 equivalent for consulting services must be made by international public bidding (paragraph 3.14).

During project execution the Bank will allow ex post verification of procurements of goods for amounts under US\$350,000, and of the selection and contracting of consulting firms and individual consultants for amounts under US\$200,000 and US\$50,000, respectively (paragraph 3.15).

**Key
performance
indicators:**

(i) DIRECON's operations are structured around the strategic objectives of implementation, administration, and evaluation of international trade agreements, by the end of year one; (ii) 100% of DIRECON units involved in the administration and implementation of agreements employ results-driven management, starting in year two; (iii) DIRECON budget resources for the management and implementation of agreements are allocated on the basis of annual work plans that include targets and outputs (100% by year three); (iv) the level of dissemination and private company knowledge of trade agreements at project start and end; (v) new working tools, methods, and information systems are developed and available for the management, monitoring, and evaluation of trade agreements, starting in year one; (vi) partnerships and avenues for ongoing dialogue among businesses and public/private entities on Chile's positioning itself in the international economy from its regions up are instituted in the country's 13 regions in year one, and firmly established by year three; (viii) the benefits and viability of three new trade promotion tools are determined by identifying clusters with export potential, by year three; (viii) mechanisms to raise awareness and disseminate information and for consultation and participation with civil society are developed and instituted, including an internship program at DIRECON, starting in year one; and (ix) new information systems (software y hardware) to better manage function-specific internal processes and procedures and integrate workflows are introduced in year two and fully implemented by year three.