

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CHILE

PROGRAM TO SUPPORT CHILE'S GLOBAL SERVICES EXPORT SECTOR

(CH-L1138)

LOAN PROPOSAL

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ABBREVIATIONS

CGR	Contraloría General de la Republics [Comptroller General of the Republic]
CNCA	Consejo Nacional de Cultura y las Artes [National Council for Culture and the Arts]
CORFO	Corporación de Fomento de la Producción [Production Development Agency]
FDI	Foreign direct investment
GDP	Gross domestic product
ICT	Information and communication technologies
IRR	Internal rate of return
MICSUR	Mercado de Industrias Culturales del Sur [Cultural Industries Market of the South]
NPV	Net present value
OECD	Organization for Economic Cooperation and Development
PEU	Project execution unit
SENCE	Servicio Nacional de Capacitación y Empleo [National Training and Employment Service]
SIGFE	Sistema de Información de la Gestión Financiera del Estado [Chilean government's financial management information system]
WTO	World Trade Organization

PROJECT SUMMARY

CHILE PROGRAM TO SUPPORT CHILE'S GLOBAL SERVICES EXPORT SECTOR (CH-L1138)

Financial Terms and Conditions				
Borrower: Republic of Chile			Flexible Financing Facility ^(a)	
			Amortization period:	15 October 2033
Executing agency: Office of the Secretary and General Administration of Chile's Ministry of Finance			Disbursement period:	4 years
			Grace period:	15 April 2030 ^(b)
			Interest rate:	LIBOR-based
Source	Amount	%	Credit fee:	(c)
IDB (OC):	US\$27million	100	Inspection and supervision fee:	(c)
			Original WAL:	14.25 years ^(d)
Total:	US\$27 million	100	Currency of approval:	U.S. dollars from the Bank's Ordinary Capital
Project at a Glance				
Project objective/description: The objective of the program is to contribute to the development of Chile's global services export sector. The specific objectives are to help: (i) increase exports and foreign direct investment (FDI) in the global services export sector; (ii) improve human resource capacities and increase employment in the global services export sector; and (iii) strengthen the sector ecosystem and improve interagency coordination of the global services export industry.				
Special contractual conditions precedent to the first disbursement of the loan: (i) evidence of the creation of the executing agency's project execution unit (PEU) specifically for the program; (ii) entry into force of the program operating manual, under the terms agreed upon with the Bank; and (iii) the Bank's no objection to the draft commitment agreement for the execution of services, to be signed by the sub-executing agencies and the executing agency (paragraph 3.3).				
Exceptions to Bank policies: None				
Strategic Alignment				
Challenges: ^(e)	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>	
Crosscutting themes: ^(f)	GD <input type="checkbox"/>	CC <input type="checkbox"/>	IC <input type="checkbox"/>	

^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life (WAL) of the loan or the last payment date as documented in the loan contract.

^(c) The credit fee and the inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the corresponding policies.

^(d) The original weighted average life of the loan may be shorter, based on the effective date of signature of the loan contract.

^(e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(f) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

- 1.1 Chile has experienced strong economic growth for more than 20 years. In the last decade in particular (2005-2015), its GDP increased 93% at an annual growth rate of 4%, achieving a per capita GDP of US\$15,800 in 2015, one of the highest in the region. However, the growth rate has slowed in the last two years, to annual growth of about 2% since 2014. Given the country's poorly diversified production matrix, where 61% of exports are copper or copper byproducts,¹ and a trade-to-GDP ratio of 60% (higher than most other countries in the Southern Cone²), export services³ represent an important alternative for diversifying and adding value to exports, increasing productivity, and raising growth rates.
- 1.2 **The potential of the global services export sector.** Services has been the most dynamic trade sector, growing faster than goods in the last 10 years and proving less vulnerable to swings in the global economy.⁴ From 2005 to 2015, service exports grew by 61%, while goods exports only increased by 35%.⁵ During that same period, non-traditional global services grew by 96%, for an estimated total of US\$163 billion in 2015.⁶ Although Latin America and the Caribbean's share in global services exports has remained relatively stable (8%-9%), the composite annual growth rate over the last 10 years was 14%,⁷ which is one of the highest rates, topped only by India, the world leader in global services exports, which points to significant future potential. In addition, it is a sector that makes intensive use of human capital and has strong potential to create skilled jobs (OECD, 2012). Internationally, it is estimated that demand for labor in the sector will increase over the period 2015-2020, especially in areas related to data analysis and the development of software programs and applications (World Economic Forum, 2016). An expected outcome of increased global services exports is an increase in the demand for skilled jobs (Crino, 2010; Jensen, 2011). It is also a sector that allows for technology transfer and attracts the bulk of the world's foreign direct investment (FDI) flows.⁸ Lastly, it is an industry with low pollution levels, and given the

¹ The export concentration index was 0.323 in 2015, higher than that of neighboring economies (Peru 0.247, Uruguay 0.218, Brazil 0.128, and Argentina 0.196).

² Trade openness calculated as exports plus imports over GDP was 45% in Uruguay, 44% in Peru, 39% in Colombia, 27% in Brazil, and 23% in Argentina.

³ The non-traditional global services sector is part of the services sector, which includes all export services (including information and communication technologies, engineering and architecture, business processes, health services, and creative industries), and only excludes tourism and transportation.

⁴ UNCTAD Handbook 2015. In the 2009 financial crisis, services fell 11% and goods declined 23%. The Americas Business Dialogue, an initiative led by the private sector and facilitated by the Bank, included among the policy recommendations it presented to heads of State at the Second CEO Summit of the Americas (Panama, 2015) a recommendation to "develop public policies specifically designed for enhancing the conditions that promote service exports," (Recommendation #11 – [Report "From Dialogue to Action: Policy Recommendations and Public-Private Partnership Proposals"](#)), in order to promote economic growth in the region.

⁵ WTO (2016). World Trade Statistical Review 2016. Geneva: WTO, pp. 136-144.

⁶ WTO (2016). World Trade Statistical Review 2016. Geneva: WTO, p.129.

⁷ IDB calculations based on the WTO.

⁸ Services hold 60% of global FDI stock, with professional services accounting for 16%. Source: UNCTAD, 2011.

development of information and communication technologies (ICT), geographic distance to key markets is no longer a determining factor.⁹

- 1.3 **Global services exports in Chile.** In the case of Chile, of the US\$70.097 billion in total exports in 2016, general services represented roughly 13.5% (US\$9.5 billion), while non-traditional (or global) services accounted for 5.5%, for a total value of US\$3.857 billion in exports.¹⁰ Non-traditional services are diversified across the following industry segments: information technology outsourcing, business process outsourcing, and knowledge process outsourcing,¹¹ as well as health and creative industries, which had a 15% annual growth rate in the period 2003-2015.¹² Although the average annual growth in Chile's GDP between 2010 and 2015 was 4.1%, in the non-mining goods sector it was 2.5%, compared with the services industry with 5.2%.¹³ The main export destinations for the sector are the United States (23%) and Latin America and the Caribbean (56%), and there are 600 companies that export (50% of which are small and medium-sized enterprises), which are primarily concentrated in metropolitan Santiago and Valparaíso.¹⁴ This recent dynamic growth has translated into a significant increase in employment and wages in the sector. In the last decade, sector employment grew 20% and covers 8% of the economically active population (compared with 16% in the United States and 12.7% in the United Kingdom). Wages in the sector increased by 26% over the same period and are 84% higher than wages in the manufacturing sector (OECD, 2012). This evidence shows that the growth and strengthening of the global services sector has strong potential for creating more and better-quality jobs.
- 1.4 **FDI in search of skills and cost efficiency.** Chile has demonstrated significant potential for becoming a key global player in attracting investments and developing the global services sector, with sufficient infrastructure to develop the sector, as well as economic and political stability, a time zone similar to that in the United States, and broad trade openness.¹⁵ In addition, the country is recognized for its favorable business climate (it ranks 56th in the Doing Business index for all countries, and 3rd in South America in 2016),¹⁶ and has higher levels of legal certainty and transparency than the average in the region (ranking 1st in the region in the areas of low corruption, rule of law, and democracy index.¹⁷ Considering the size of its economy, although Chile has successfully attracted FDI in the last few decades (third largest recipient in Latin America and the Caribbean, behind only Brazil and

⁹ J. Peña Capobianco (2017), A. Vashistha (2017).

¹⁰ Banco Central de Chile (2016). Balance of Payments.

¹¹ Information technology outsourcing (software development, IT services and consulting, videogames, animation and simulation); business process outsourcing (accounting and finance, human resources, back-office services, shared services centers), and knowledge process outsourcing (research, development and innovation, engineering and construction, education, legal services, financial services).

¹² ProChile (2017). *Oferta exportable servicios, Énfasis y desafíos*, p. 6.

¹³ Santiago Chamber of Commerce (2016). *Chile: Una Orientación Estratégica De Largo Plazo Para Elevar La Productividad*, p.37.

¹⁴ ProChile (2017) et al., p. 11, and J. Peña Capobianco (2017).

¹⁵ Santiago (#29) and Valparaíso (#89) are among the top 100 outsourcing destinations. Source: Tholons (2016).

¹⁶ World Bank *Doing Business 2016*.

¹⁷ Transparency International; World Justice Project (2016), and Economist Intelligence Unit (2015).

Mexico),¹⁸ these investments have been concentrated in natural resource extraction projects related primarily to mining. To date, only a small fraction of FDI (6%) has been directed to global services.¹⁹

- 1.5 **Challenges to the development of global services trade in Chile.** Despite its significant potential, Chile faces several challenges in positioning itself as a major hub for global services companies and a leader among exporting countries at the international level. This situation is due to a wide range of issues that the country must address.
- 1.6 First, Chile has problems in diversifying its supply of exports and promoting the internationalization of smaller companies and emerging sectors. The Chilean export matrix is concentrated in products based on natural resources with low levels of complexity, and the rate of growth of exported products with higher value-added has been significantly lower than in other countries in the region or comparable countries.²⁰ The level of economic complexity of Chile's exports²¹ is lower than the regional average, and specifically lower than in comparable countries such as Uruguay, Costa Rica, Argentina, Brazil, and Colombia.²² Largely in response to this poorly diversified productive matrix, efforts to promote exports have mostly focused on goods, with demand for instruments to promote the services sector going unmet. For example, a survey of companies in this sector in Chile that was conducted through ConnectAmericas²³ shows that 84% would be interested in participating in export promotion programs that are specifically targeted to the global services sector.²⁴ The recent growth of the services sector, stimulated by the emergence of modern business models based on new technologies and the development of the digital economy, is driving an increasingly wider gap between the sector's needs and the support mechanisms currently offered. The challenge is to reorient and adapt promotion services and tools to meet these emerging needs specific to the services export sector.
- 1.7 At the same time, it is important to develop a proactive investment promotion policy with a sector focus on service links that create high value-added, jobs, and exports. International experience points up the importance of linking the investment policy with the export policy, thereby offering services to the investor not only in the facilitation stage, but also in the aftercare stage. Furthermore, as demonstrated by

¹⁸ ECLAC, 2015.

¹⁹ InvestChile (2016). Estrategia de Fomento y Promoción de la Inversión Extranjera Directa. 2014 data from the INE and ECLAC.

²⁰ Between 2003 and 2012, Finland added 40 new products, 10 of which had a high degree of complexity, and Argentina added 27 new products, 4 of high complexity. In that same period, Chile only added 9 new products to its export basket and none had high complexity. Rodolfo Lauterbach, "Chile y la Complejidad de sus exportaciones," Consejo Nacional de Innovación para el Desarrollo [National Council of Innovation for Development], 2015.

²¹ A good is considered "complex" when it is produced by few countries, which in turn tend to produce many goods. Crespi et al. (2014).

²² Atlas of Economic Complexity 2014.

²³ ConnectAmericas.com is a business social network launched by the IDB in 2014, which aims to help small and medium-sized enterprises in Latin America and the Caribbean to go international and become part of global value chains.

²⁴ The survey was conducted in May 2017 through ConnectAmericas for registered companies in the global services sector (see [Survey](#)).

the successful cases of Ireland, Estonia, Singapore, and Costa Rica, there must be a shift from a horizontal promotion model to a model with more selective rationality, focusing on specific sectors with strong potential and proactively promoting investments that are seeking skills and cost efficiency. This focus must be congruent with the country's productive development strategy and must therefore be coordinated with the strategy advanced by promotion agencies through their strategic programs, where there is verifiable demand on the part of exporters of global services.

- 1.8 Chile has a shortage of labor with the qualifications required by the export services sector (Innovum, 2009). Although the demand for employment is growing in the sector at the global level, firms are facing increasing difficulty in finding labor with the skills they require (World Economic Forum, 2016). In order for the sector to become a sustainable source of more and better jobs, a human capital development strategy must be formulated to ensure that companies can get the skills they require from workers. To this end, the country must overcome a number of challenges. The main challenges identified in the area of human capital include a lack of technical and social-emotional skills and certification of same. Regarding technical skills, there are shortfalls in two main areas: (i) the lack of qualified human capital with good English skills; and (ii) the lack of technical skills related to technology and computers. According to the 2012 national census, only 9.5% of the Chilean population can communicate in English (1.6 million people),²⁵ and according to the scale used by the Educational Testing Service based on the average score on the international TOEFL iBT test, with a score of 80 out of 120, Chile is below several of its regional competitors such as Colombia (82), Peru (86), Argentina (91), Costa Rica (93), and Uruguay (94).²⁶ There are also opportunities for improvement in technical skills related to technology and computers (e.g., programming language). Only 2.1% of adults in Chile and 2.3% of people between the ages of 16 and 24 have advanced knowledge on the use of information technology (OECD, 2016),²⁷ which puts the country at a significant disadvantage with respect to other OECD countries. In addition, based on the country's needs, it is estimated that in 2015 there was a 39% shortage of ICT professionals in the country, and a 54% shortage of ICT professionals who specifically work with new technologies such as cloud computing, datacenters, or virtualization (CORFO, 2015). Social-emotional skills are lacking in all segments of the industry, particularly in terms of communication skills, leadership, teamwork, working in multicultural environments, working under pressure, etc. Finally, deficiencies are also seen in the area of skills certification, particularly international certifications (Innovum, 2009).
- 1.9 Although the country has taken significant steps to close human capital gaps in the sector, there are still challenges in expanding the supply of training programs and improving their quality and relevance. The country created training programs aimed at addressing the needs of companies in the sector, particularly in programming and English skills, but these programs only meet a tiny fraction of the sector's needs. In order to expand and improve the programs offered, the country needs better coordination between public and private institutions involved in the sector, in order

²⁵ National Statistics Institute (2013). INE, p. 8.

²⁶ ETS (2016). Test and Score Data for 2016 TOEFL iBT Tests.

²⁷ OECD (2016), Country Note, Chile.

to improve the content of the training courses that are financed. The country does not have any mechanisms or tools designed to continuously identify and address gaps and needs in the sector in terms of current and future requirements for technical and social-emotional skills and certifications. Nor does it have any tools that would enable it to ensure the quality and relevance (vis-a-vis private sector demands) of training efforts. Finally, there are no flexible financing mechanisms for meeting the specific training needs of companies in the sector. These mechanisms and tools are necessary in order to expand the supply of training programs targeted to the global services sector and ensure their effectiveness.

- 1.10 Lastly, the regulatory and institutional framework for Chile's foreign trade is primarily designed for goods and must, therefore, be adapted to the specific needs of the services industry. This includes simplifying formalities, reviewing and reformulating tax exemptions, refunding value-added taxes, as well as double taxation agreements, and continuing to review the chapters on services in free trade agreements, in order to ensure that they are correctly applied to the services industry. Moreover, sector information is incomplete and disaggregated across multiple institutions, which makes it hard to develop public policies based on clear knowledge about the sector. In particular, available information on the job skills and profiles required by the sector is incomplete and has not been updated or verified by companies in the industry. And in the absence of sufficient information, it is impossible to come up with a unified message for companies and users that would enable them to learn about available support and gather commercial intelligence based on systematized and updated data.
- 1.11 In view of the foregoing, the country has requested an investment loan from the Bank to support the services export sector by coordinating and enhancing the work that is being done by various specialized agencies and institutions to promote exports and attract investments in services in Chile.²⁸ Given the large number of institutions that participate in activities to build export capacities and attract investments in the global services sector, efforts must be strengthened to coordinate among the participating government agencies, and between those agencies and the organized private sector, by formalizing strategic mechanisms (Strategic Council) and advisory mechanisms (Public Private Council) to strengthen, validate, and promote the transparency of decision-making processes related to the sector.
- 1.12 **Coordination with other Bank projects.** This program complements the activities included in the Competitiveness and Productive Diversification Support Program (4272/OC-CH), which has the general objective of promoting productive transformation through economic diversification, improving the competitiveness of strategic sectors, and addressing major country challenges associated with productive transformation. Specifically, the instruments described in the proposed program will support efforts to enter international markets among the companies with export potential that are being supported by the Strategic Investment Fund under program 4272/OC-CH . In addition, this operation is associated with the activities included in programs currently being carried out with the Ministry of Labor, specifically through the Program to Support SENCE's Effectiveness (2793/OC-CH) and the Program to Strengthen the Labor Intermediation System in Chile

²⁸ Agencies such as the Foreign Investment Promotion Agency (InvestChile), ProChile, CORFO, SENCE, National Council for Culture and the Arts (CNCA), Ministry of Finance, etc.

(4098/OC-CH), which, respectively, seek to improve the coverage and effectiveness of training and intermediation activities of Chile's National Training and Employment Service (SENCE) and improve the integration and delivery of labor intermediation services for job seekers and companies in Chile. The former program (2793/OC-CH) finances the creation and strengthening of labor observatories, which analyze current and future occupational gaps in the labor market. Component II of the proposed program incorporates these mechanisms and targets some of its activities to the analysis of the skills required by the global services industry, which will be used as a basis for designing certifiable training programs. Lastly, the program is expected to coordinate with the activities currently being carried out under the technical cooperation operations Support for the Chilean Productivity Commission to Develop a Competency-Based Job Training System (ATN/AH-15958-CH) and Support for Labor Policy and a Competency-Based Job Training System (ATN/OC-16188-CH).

- 1.13 **Effectiveness of export promotion and human capital training programs.** To achieve higher levels of growth in the medium and long term, the export sectors must diversify, expanding the supply of products, improving quality, and developing new differentiated, innovative export services that are based on the competitive advantages of the country's productive matrix and the opportunities offered by new markets. Agosin (2009)²⁹ finds that the diversification of exports in Latin America and the Caribbean may even explain up to 50% of the difference in the growth rates of Latin America and the Caribbean and Asia over the period 1980-2003. In addition, there is broad consensus in the literature on the effectiveness of export promotion programs.³⁰ For example, Lederman, Olarreaga, and Paton (2006)³¹ conclude that the average return of export promotion agencies in Latin America is US\$70 for every dollar invested. Cadot et al. (2012)³² and Freixanet (2012)³³ and Freixanet and Ayob (2014)³⁴ also report that these programs had a positive and sustainable long-term impact on beneficiary companies, in terms of diversification of their exports and the opening of new export markets. The impact is even stronger when the companies requesting support seek to diversify their services and expand their markets beyond simply increasing their external sales. Volpe (2010)³⁵ looks at a number of export promotion programs and concludes that, in general, the positive effects seem to be greater when the programs are combined to deliver support to exporters in the different stages of export development, and when they seek not only to increase exports but also to diversify them. In terms of human capital, the evidence shows that the job training systems with good results have mechanisms in place to identify the skills required by the productive sectors and meet those needs with the training system, to translate those skills requirements into competency standards, and to ensure the quality of the system at all levels (Fieldsend, 2016 and

²⁹ Agosin, 2009. ECLAC Review 97.

³⁰ The rationale for these programs is based on the theory of externalities and other market failures related to exportation (Kanda et al., 2013).

³¹ Lederman, Olarreaga, and Paton, 2006. World Bank.

³² O. Cadot, A. M. Fernandes, J. Gourdon, and A. Mattoo, CEPII, Working Paper No. 2012-30.

³³ J. Freixanet, *International Business Review*, 2012.

³⁴ J. Freixanet and A. H. Ayob, 2014. *Evaluation and Program Planning* 46, 2014, pp. 38-46.

³⁵ Volpe, 2010. IDB. *Special Report on Integration and Trade*.

Van Breugel, 2012). The specialized literature on creating human capital in the services industry also emphasizes the need to have the aforementioned mechanisms in place for demand analysis, evaluation, and certification of learning, as well as the need to design flexible, demand-driven mechanisms for financing training programs that are keyed to the needs of a growing industry (Garcia and Bafundo, 2014 and de Diego, González-Velosa, and Rucci, 2017).

- 1.14 **Lessons learned.** The program takes into account the fundamental aspects and lessons learned from the design and execution of similar programs, such as the Program to Support Global Export Services (2590/OC-UR),³⁶ and from the subnational experience of the technical cooperation operation to Support the Development of the Export Services Sector at the Subnational Level (ATN/AT-13767-AR), both of which are in advanced stages of implementation. For example: (i) the various investment promotion instruments should cover the entire investment cycle and be duly coordinated with those aimed at promoting exports; (ii) the active participation of the private sector is fundamental for validating the sector's medium- and long-term strategies, as well as for confirming the relevance of the support instruments provided by the public sector; and (iii) it is advisable to centralize coordination of the different public agencies in one high-level institution that is capable of aligning efforts and has sufficient political backing to advance the sector agenda.
- 1.15 **Strategic alignment.** The program is aligned with the Bank's Country Strategy with Chile 2014-2018 (document GN-2785), specifically with the pillar for productive development and competitiveness, the priority area of public management (strategic objective: to strengthen public management to prepare the State for growing citizen demands), and the priority area of competitiveness and innovation (strategic objective: to improve SME management and productivity). The operation is also consistent with the Bank's Update to the Institutional Strategy 2010-2020 (document AB-3008)³⁷ and is aligned with the following development challenges: (i) economic integration of the region, inasmuch as it will diversify the productive matrix and enable greater participation in value chains, especially in segments with high quality and value added; and (ii) promotion of productivity and innovation, inasmuch as it will enable improvements to labor intermediation and training to meet private sector demand. In addition, the program is aligned with the Corporate Results Framework 2016-2019 (document GN-2727-6), specifically the indicators corresponding to the growth rate of service exports, the increase in FDI, beneficiaries of on-the-job training programs, and non-financial support of micro, small, and medium-sized enterprises. The program will also contribute to the Sector Strategy to Support Competitive Global and Regional Integration (document GN-2565-4) and is consistent with the Integration and Trade Sector Framework Document (document GN-2715-6), specifically with the need for export promotion

³⁶ The results of the program executed under loan 2590/OC-UR include the following: a platform was created (www.smarttalent.uy) that incorporates a talent registry for the sector (13,000 records) and other functions, as well as updated information for promoting the industry to the labor market, and academic offerings (more than 100 activities). In addition, an instrument was developed to co-finance on-demand training programs ("finishing schools") for potential investors and established companies, which trained more than 3,000 people through more than 100 plans that were co-financed between 2012 and 2016.

³⁷ Chapter 2.b.3, paragraphs 2.10, 3.6a, and 3.7b of the 2015 update.

programs.³⁸ It is also consistent with the Labor Sector Framework Document (document GN-2741-7) in its sector priority V.a. on access to jobs, and sector priority V.b. on job training and productivity. The project is included in the 2017 Operational Program Report (document GN-2884).

B. Objectives, components, and cost

- 1.16 The objective of the program is to contribute to the development of Chile's global services export sector. The specific objectives are to help: (i) increase exports and foreign direct investment (FDI) in the global services export sector; (ii) improve human resource capacities and increase employment in the global services export sector; and (iii) strengthen the sector ecosystem³⁹ and improve interagency coordination of the global services export industry.
- 1.17 To achieve these objectives, the program includes the following components:
- 1.18 **Component I. Building business capacity and attracting investment in global services (US\$13,364,000).** This component will strengthen the capacities of local businesses and attract investments to increase exports and employment in the global services sector. It includes the coordination and optimization of instruments for development, attraction of investments, and promotion of exports throughout the country to ensure that these instruments are better targeted to, and have a stronger impact on, global services sectors with competitive advantages for Chile. The program will finance the following activities: (i) international positioning; (ii) trade promotion; (iii) business capacity in the area of exports; (iv) pre- and post-investment services; and (v) a sector information system (electronic platform with information on the regulation and procedures for exporting services, support and promotion mechanisms, business intelligence, and access to databases). The beneficiaries will be export companies and companies with export potential in the global services sector, which will apply through open window mechanisms and specific invitations to participate. This component includes the participation of entities associated with productive development, the promotion of exports and investment, and culture and the arts.
- 1.19 **Component II. Improving the quality and relevance of human talent for the global services sector (US\$11,070,200).** The objective of this component is to improve the level, quality, and relevance of worker skills, in order to increase employment and productivity in the global services export sector. Eligible expenditure categories will be: (i) the design, implementation, and optimization of quality and relevance assurance mechanisms to retarget training to sector needs;⁴⁰ (ii) training programs for human resources in technical skills (e.g., English, specific technologies) and social-emotional skills (e.g., communication, decision-making, leadership); and (iii) certification of these skills. The training to be financed will meet the crosscutting and specific needs of companies and the global services sector,

³⁸ Chapter 3.b, paragraphs 3.15 to 3.21.

³⁹ The sector ecosystem is comprised of public and private institutions that carry out global services activities, as well as the respective rules and procedures that authorize and regulate their operation.

⁴⁰ Quality and relevance assurance mechanisms include instruments to: (i) identify skills required in the industry (or in specific companies in the industry) and training needs; (ii) identify or design certifiable training programs that are aligned with sector needs; and (iii) measure learning and evaluate the outcomes of training and certification.

which are identified through quality and relevance assurance mechanisms and will be based on international best practices that have established successful public-private partnerships for entry into the global economy, such as the finishing schools model.⁴¹ The beneficiaries will be individuals who work for or are hired by companies in the global services sector and require training or certification, and who will apply through open window mechanisms and specific invitations to participate. This component includes the participation of entities associated with productive development, the promotion of exports and investment, and training and certification.

- 1.20 **Component III. Ecosystem and interagency coordination (US\$1,863,000).** The objective of this component is to strengthen the global services ecosystem and improve the coordination of public agencies and private representatives related to the non-traditional services export agenda in Chile. This component will include the execution of studies, the implementation of strategic instruments for targeting and designing sector plans, simplification of formalities, standardization of services export information through international coding systems, methodologies for evaluating institutional outcomes and impact, as well as interagency coordination activities in the public sector as well as coordination between that sector and the private sector. This component includes the participation of entities that carry out global services activities, such as productive development, the promotion of exports and investment, and training and certification.

C. Key results indicators

- 1.21 The program's key indicators relate to: (i) achieving a greater share of high value-added services in Chile's total services exports and promoting the diversification of the country's productive structure; (ii) increasing employment in the global services sector; and (iii) increasing foreign investment in the global services sector. The program is specifically expected to produce the following main results: (i) an increase in the number of new companies that export global services; (ii) an increase in FDI for companies in the global services sector in the pre-investment, landing, or aftercare stages; and (iii) an increase in the number of individuals who have been trained, in order to close the human capital gap in the global services export sector.
- 1.22 The project's net benefits in terms of incremental social net present value (NPV) were estimated at US\$232 million, with an internal rate of return (IRR) of 108%. A cost-benefit analysis was conducted for the program as a whole, and sensitivity exercises were also performed by changing the estimates on the project's impact on a set of key variables and using different discount rates. The project generated a positive return in all estimated scenarios, with net benefits ranging from US\$137 million to US\$196 million and IRRs ranging from 20% to 40%. Details can be found in the economic analysis of the project ([optional electronic link 1](#)).

⁴¹ Training programs with public-private co-financing, tailored to the businesses' needs.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The total cost of the specific investment program is US\$27 million, which will be financed by the Bank from Ordinary Capital resources. The consolidated budget by component appears in Table 2.1 below, and the itemized budget can be found in the [optional electronic link 2](#).

Table 2.1 – Estimated budget in US\$

Component I – Building business capacity and attracting investment in global services	13,364,000
1.1. International promotion	9,514,000
1.2 Business capacity	3,250,000
1.3 Systems and coordination	600,000
Component II – Improving the quality and relevance of human talent for the global services sector	11,070,200
2.1 Training courses aligned with sector needs	10,650,200
2.2 Quality and relevance assurance mechanisms	420,000
Component III – Ecosystem and interagency coordination	1,863,000
3.1 Studies and evaluations	360,000
3.2 Interagency coordination ⁴²	1,503,000
4. Contingencies	702,800
Total	27,000,000

- 2.2 **Disbursement period.** Based on the type of activities included in the program and taking into account the prior experience of the project execution unit (PEU), as well as experience in executing similar programs, a multiyear execution plan ([required electronic link 1](#)) was developed that will have a disbursement period of four years. Table 2.2 shows the projected disbursements.

Table 2.2 – Disbursement projections in US\$

Year	January	July	Total	%
2018	3,000,000	3,874,000	6,874,000	22.99
2019	3,000,000	3,723,000	6,723,000	24.85
2020	3,000,000	4,076,000	7,076,000	26.62
2021	3,000,000	3,327,000	6,327,000	25.54
Total			27,000,000	100

B. Environmental and social risks

- 2.3 No major impacts are anticipated in terms of environmental and social risks, and the program has thus been classified as a category “C” operation, in accordance with

⁴² Administrative expenses (personnel expenses) are not included in the program inasmuch as the PEU personnel have already been hired by the Ministry of Finance and are expected to perform tasks shared with other projects. Expenses related to monitoring and evaluation are included as part of component III under interagency coordination.

the Bank's Environment and Safeguards Compliance Policy (OP-703) and its safeguard policy filters.

C. Fiduciary risks

- 2.4 The main fiduciary risk would stem from potential noncompliance with the procurement plan ([required electronic link 3](#)) and in turn the annual work plan ([required electronic link 1](#)). Due to the nature of the program, most of the loan proceeds will be used to select and contract consulting services (individuals and goods), which will be carried out by the different sub-executing agencies of the Ministry of Finance that have sufficient terms of reference, available staff on technical teams with the required longevity, and knowledge about applicable procedures within the scope of the Bank's validation of country procurement systems. Although the financial risk is considered low, continuous monitoring is required to ensure that PEU staff are familiar with the Bank's financial policies (OP-273-2, OP-274-2, guidelines on disbursements, financial reports, and external audits).
- 2.5 The project will make full use of the country financial management systems and will be audited by the Comptroller General of the Republic (CGR). A project execution unit (PEU) will be created at the level of the Ministry of Finance's Office of the Deputy Secretary for Finance. It will be staffed by individuals with experience executing loan contract 2539/OC-CH,⁴³ including a procurement specialist with knowledge and experience in public procurement processes. A financial-accounting specialist will also be added who has experience in the use of the financial management information system (SIGFE) and in the preparation of financial reports. This specialist will be responsible for the timely and accurate reporting of program transactions within the executing agency and will prepare disbursement requests, supporting documentation, and financial statements for the program. Finally, the internal audit will follow up on the recommendations of CGR audits; execution agreements will be signed with the sub-executing agencies and must have the Bank's statement of no objection; and a launch and an update workshop will be conducted, along with continuous training programs for the executing agency as well as the sub-executing agencies.

D. Other project risks

- 2.6 The project team, in conjunction with the counterpart authorities in the country, identified the following medium risks, which are reflected in the program's risk matrix: (i) support for the services export agenda falls off the list of priorities when the next government takes office; (ii) execution is delayed due to a low level of commitment and/or participation of some relevant institutions; and (iii) execution is delayed due to weak coordination and monitoring between the executing agency and the other institutions participating in the program. To mitigate the first risk, an agreement was made with the counterpart to deliver presentations on the project to the new authorities and to representatives of the private sector, hold seminars, and carry out other activities pointing up the sector's medium- and long-term importance for the

⁴³ The experience gained by the PEU team in Loan 2539/OC-CH, both in terms of fiduciary execution and in the communication and supervision mechanisms required by the Bank, as well as in the coordination of the different institutions involved, will be an important factor for ensuring the effective execution of the referenced program.

country's productive diversification and economic growth agenda. Lastly, efforts will be made to strengthen the Public-Private Technical Committee for Services Exports. This committee will add new members from chambers or unions with representation in the sector and will take an active role in the review of sector strategies. To mitigate the second medium risk, it was agreed to draft execution agreements related to target commitments, to be signed with each of the institutions participating in the program, as well as a timetable of meetings to monitor the execution agreements. Finally, to mitigate the third risk, it was agreed to establish a monitoring and evaluation system for the project and to organize semiannual meetings to review progress with the institutions involved in the program.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower is the Republic of Chile, and the executing agency is the Office of the Secretary and General Administration of the Ministry of Finance (Office of the Deputy Secretary for Finance). The executing agency will have the following responsibilities: (i) support whatever actions are needed to successfully execute the program; and (ii) collect information on performance indicators needed to evaluate program results, once the program disbursements have been made.
- 3.2 **Execution mechanism.** Program execution will be handled by a project execution unit (PEU) at the Office of the Deputy Secretary for Finance. The PEU will serve as the Bank counterpart, supervise the progress made in the project activities, consolidate information on expenditures and procurement processes for the entire program, and prepare the respective financial statements. The sub-executing agencies will carry out all technical and administrative activities required for execution of the projects they are responsible for and will set up units responsible for the projects. The loan proceeds will be allocated to the annual budgets of the executing and sub-executing agencies, and, through current transfers, the proceeds will be transferred to the sub-executing agencies as set out in the sub-execution agreements that they sign with the executing agency, under the terms previously agreed upon with the Bank. To execute the program, the executing agency will be supported by a strategic committee, which will have the core mission of coordinating the public entities and coordinating these entities with the private sector, and contributing to the strategic outlook and sustainability of the services export agenda in the medium and long term. In addition, the executing agency will be supported by a technical committee in charge of advising the PEU on technical matters. The program operating manual will contain detailed information on the program execution mechanism, the composition of the PEU, and the functions of and participants in the technical and strategic committees for the program.
- 3.3 To formalize the inclusion of this program in the executing agency's structure, evidence of the creation of the PEU in the executing agency is required. In addition, to spell out all the operational aspects of the above-mentioned execution arrangements, the program must have an operating manual. Finally, to establish the contractual relationship between the executing agency and the sub-executing agencies, agreements must be signed which establish the respective execution commitments. Therefore, in order to establish obligations that are consistent with the

aforementioned operational requirements, which would enable them to be successfully implemented, **the following special contractual conditions precedent to the first disbursement of the loan are included: (i) evidence of the creation of the project execution unit (PEU) at the executing agency, specifically for the program; (ii) entry into force of the program operating manual, under the terms agreed upon with the Bank; and (iii) the Bank's no objection to the draft commitment agreement for the execution of services, to be signed by the sub-executing agencies and the executing agency.**

B. Summary of arrangements for monitoring results

- 3.4 The monitoring and evaluation plan ([required electronic link 2](#)) will support execution of the operation in accordance with the targets and progress indicators set out in the results matrix and the program's operating manual. The PEU will be responsible for monitoring and evaluating program results and impacts, using the following tools: (i) project execution plan; (ii) semiannual progress reports, including impact monitoring indicators, outcome indicators, and indicators on compliance with environmental programs and requirements; (iii) midterm evaluation report when 50% of the total loan amount has been disbursed, or 24 months into execution; and (iv) evaluation at project completion, including an ex post economic evaluation that will take place when 80% of all disbursements have been made.
- 3.5 In regard to the evaluation system, to assess the impact of assistance, the use of two different evaluation approaches is proposed. One involves evaluating the impact of the program on services exports and employment at the participating firms, and the second will evaluate the direct impact of the program on the FDI received by Chile during the execution period. In both cases the difference-in-differences and matching difference-in-differences methods will be used. The matching difference-in-differences method combines matching with difference in differences. Details on these activities can be found in the monitoring and evaluation plan ([required electronic link 2](#)).

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Economic Integration	
Country Development Results Indicators	-Beneficiaries of on-the-job training programs (#)* -Jobs created by supported firms (#)* -Micro / small / medium enterprises provided with non-financial support (#)* -Professionals from public and private sectors trained or assisted in economic integration (#)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2785	(1) Improve SME management and productivity and (2) Strengthen public management to prepare the state for growing citizen demands.
Country Program Results Matrix	GN-2884	The intervention is included in the 2017 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	Evaluable	
3. Evidence-based Assessment & Solution	8.4	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	2.4	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	8.5	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0	
4.2 Identified and Quantified Benefits	1.5	
4.3 Identified and Quantified Costs	1.5	
4.4 Reasonable Assumptions	0.0	
4.5 Sensitivity Analysis	1.5	
5. Monitoring and Evaluation	8.6	
5.1 Monitoring Mechanisms	1.5	
5.2 Evaluation Plan	7.1	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Low	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	C	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit. Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality		
Labor		
Environment		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Technical assistance is underway to strengthen the capacity of the UEP and other sub-executing agencies, as well as for M&E aspects and strategic studies. Additionally, the public sector has benefitted from knowledge acquired through the execution of prior TCs, CH-T1179 and CH-T1189.
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	There are a few cross-country studies that evidence the benefits of export promotion. This impact evaluation will more concretely demonstrate attribution between export promotion and its benefits, including exports, employment and FDI, for the specific case of the global services sector in Chile.

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The Program of Support to the Export of Global Services in Chile has the objective of contributing to the development of the global export services sector in Chile. The specific objectives are: (i) increase exports and Foreign Direct Investment (FDI) in the sector; (ii) improve capacity and human resources and increase the level of employment in the sector; and (iii) strengthen the sectorial ecosystem and improve the interinstitutional coordination of the global export services industry.

The program's vertical logic is adequate. The Chilean productive matrix is scarcely diversified, with 61% of exports concentrated in copper and its derivatives, which in turn makes the economy vulnerable to world prices. Further to the goal of diversifying production, 84% of companies surveyed through Connect Americas would be interested in benefiting from global services export support programs in the context of the sector's promising growth at a global level. Around 13% of Chile's exports are in this sector, which employs 8% of the economically active population. Chile has potential in this sector given its stability, a good investment climate, and an ample commercial aperture. However, it has scarce work force qualified with the capacities required. Only an estimated 9.5% of the population speaks English and there is also scarcity in technical capacities related to information technology. The project's objective is to catalyze the global services export sector via an improvement in human resources, and a strengthening of the governmental institutions that support it, as well as an increase in FDI and as consequence of all of this an increase in the sector's exports.

The cost benefit analysis and monitoring and evaluation plan are adequate. The project aims to develop an impact evaluation with a matching methodology combined with difference-in-differences to provide evidence of the effectiveness of this type of program.

RESULTS MATRIX

Program objective:	The objective of the program is to contribute to the development of Chile's global services export sector. The specific objectives are to help: (i) increase exports and foreign direct investment (FDI) in the global services export sector; (ii) improve human resource capacities and increase employment in the global services export sector; and (iii) strengthen the sector ecosystem and improve interagency coordination of the global services export industry.
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IMPACT INDICATORS

Impact indicators	Unit of measurement	Baseline	Final target	Comments
Impact 1: Increase in global services exports				
Services exports	US\$ billion	3.857	5.114	<p>To calculate the baseline, 2016 balance-of-payment data provided by the Central Bank of Chile for the following were used: (i) financial, insurance, and pensions services; (ii) telecommunications, computing, and information services; (iii) other business services; and (iv) personal, cultural, recreational, and other services, which together show that the total value of services exports was US\$3.857 billion. Growth rate projections were based on the same data from 2007 to 2016. Using this reference, the estimated average annual growth rate will be at least 6.1%.</p> <p>Baseline: Central Bank of Chile, 2016.</p> <p>In addition, the program includes an impact evaluation aimed at measuring the growth in exports, the increase in the number of destination markets, and the increase in the number of employees (difference between beneficiary and non-beneficiary companies). See details in required electronic link 2.</p>

Impact indicators	Unit of measurement	Baseline	Final target	Comments
Impact 2: Increase in FDI in the global services export sector				
Cumulative foreign direct investment (FDI) in the services sector	US\$ billion	11.913	12.918	<p>The baseline was calculated using Central Bank of Chile data from 2012 to 2015¹ on passive FDI flows² associated with services in the area of communications, financial services, business services, and other services. To project the cumulative value for the period 2018-2021, the average rate of accumulation³ for the period 2012-2015 was considered. Baseline: Central Bank of Chile, 2012-2015.</p> <p>In addition, the program includes an impact evaluation to measure the change in the likelihood of a multinational firm operating in Chile and the increase in the value of investments made by multinationals in Chile (difference between multinationals that were supported and those that were not). See details in required electronic link 2.</p>
Impact 3: Increase in direct employment in the global services export sector				
Increase in direct employment in the services export sector	Number of people	157,850	161,556	<p>Data was obtained from the Central Bank of Chile⁴ for items associated with jobs created by the services sector in the following areas: (i) information and communications activities; (ii) financial and insurance activities; (iii) professional, scientific, and technical activities; (iv) administrative and support services; (v) teaching; (vi) the arts, entertainment, and recreational activities; and (vii) other services. Baseline: 2016.</p> <p>The percentage of employment in export-related services activities was calculated in proportion to total service sector earnings (national accounts data⁵) and earnings from exported services (balance-of-payments data⁶). Data from 2014 to 2016 resulted in an average of 9.1%. Projections are based on the average annual rate of change in employment for the years 2014-2016 (0.58%). Baseline: Central Bank of Chile, 2016.</p>

¹ <http://si3.bcentral.cl/estadisticas/Principal1/Estudios/SE/BDP/ied.html>.

² Based on the recommendations of the Sixth Balance of Payments Manual, an expanded definition of direct investment was used, based on what is known as the Framework for Direct Investment Relationships.

³ Calculated based on the average rates of accumulation for the period 2011-2015 (37.3%).

⁴ <http://si3.bcentral.cl/Siete/secure/cuadros/arboles.aspx>; Labor Market and Demography / Occupation by branch of economic activity / Monthly ISIC, See Rev. 4.

⁵ National Accounts; Series of monthly sector economic activity (original).

⁶ External Sector / Foreign Trade / Services Exports Series.

OUTCOME INDICATORS

Outcome indicators	Unit of measurement	Baseline	Final target 2021	Comments
Component I. Building business capacity and attracting investment in global services Outcome: Improvement in Chile's position as a services export hub				
Chile's score in A.T. Kearney's Global Services Location Index improves	Points	5.72	5.80	The Global Services Location Index measures and compares the capacity of countries to provide offshoring services, based on: (i) financial attractiveness; (ii) skills and availability of people; and (iii) business environment. In 2016, Chile ranked 9 th out of 55 countries on a scale from 0 to 8 points. Source: A.T. Kearney. Baseline: 5.72 points, 2016.
Investment in companies in preinvestment, landing, and aftercare stages increases	US\$ million	65	240	Amount of investment of companies that are in one of the following stages: - Preinvestment: Cases in which a company has already decided to invest in Chile and is preparing the implementation process. - Landing: Cases in which a company has already started to invest and has hired its first employee in Chile but has not yet launched regular operations. - Aftercare: Cases in which the investment process has been completed and regular operations have been launched (investment has materialized). Source: InvestChile Report. Base year: June 2017, FDI of companies in the services sector.
New exporters of global services per year	Number	17	22	To measure the impact of ProChile's contribution, the number of ProChile's clients in the services sector that export for the first time is measured. A company is assumed to be exporting for the first time if it does not have any export records in the last three years. Base year 2016: 17 new companies per year. ProChile is expected to have 22 new clients that export services by the year 2021. Source: DIRECON-ProChile Research Department, using figures from the National Customs Service, 2016.
Component II. Improving the quality and relevance of human talent for the global services sector Outcome: Improvement in Chile's position in the indicator for human capital for the services industry				
Chile's score in the "People skills and availability" subcategory of A.T. Kearney's Global Services Location Index improves	Points	1.26	1.35	The Global Services Location Index measures and compares the capacity of countries to provide offshoring services. One of the areas or categories that it measures is people skills and availability. Source: A.T. Kearney. Baseline: Chile's score in the subcategory "People skills and availability" in the year 2016, which was 1.26 (on a scale of 0 to 3).
Number of people trained in order to close the human capital gap in the global services export sector increases	Number	70	11,400	It is estimated that Chile's Production Development Agency (CORFO) will train 3,400 people and the National Training and Employment Service (SENCE) will train 8,000 people in global services-related subjects. Source: CORFO and SENCE reports. Baseline: 70 people in the CORFO pilot program in 2016.

Outcome indicators	Unit of measurement	Baseline	Final target 2021	Comments
Component III. Ecosystem and interagency coordination				
Outcome: Improved interagency coordination of global services export programs				
Joint training programs designed in coordination with CORFO and SENCE for the global services industry	Number	1	4	These are programs that will be designed by SENCE and CORFO based on sector demand, as a result of knowledge gaps in areas of the services industry. Source: CORFO and SENCE reports, 2016.
Companies with export potential that participate in export quality certification programs, using CORFO instruments	Number	0	30	These are companies that either currently export or have the potential to do so, which during the internationalization process, make use of CORFO's quality instruments to obtain their certification of quality. Source: CORFO report. Baseline: 0 (year 2016).
Training programs for suppliers in the global services sector provided by CORFO in coordination with InvestChile	Number	0	4	These are requested training programs for suppliers in the global services sector, which are provided by CORFO in coordination with InvestChile. Source: CORFO report. Baseline: 0 (year 2016).

OUTPUTS

Output indicators	Unit of measurement	Baseline	2018	2019	2020	2021	Total	Comments
Component IA. Installing and building capacity to attract investment by opening offices, designing websites, and carrying out international promotional activities								
New foreign offices for investment under a new operating model are established	Number	0	1	1	1	0	3	In the first three years of the program, a new operating model for InvestChile's offices in other countries will be adopted and strengthened. The operating model will be reviewed in year 4. Source: InvestChile report. Baseline: 0. In 2016, InvestChile did not have any foreign offices.
Agreements with regions to build capacity to attract investments (with new operating model)	Number	0	1	1	1	1	4	InvestChile does not have regional agreements. In year 0, the operating model for InvestChile agreements in different regions will be designed, and implementation of the new model will begin in 2018. Source: InvestChile report. Baseline: 0. In 2016, InvestChile did not have any of these agreements.
Investment companies in the pre-investment, landing, or aftercare stages	Number	6	8	8	9	10	35	Number of companies that are in one of the following stages: - Preinvestment: Cases in which a company has already decided to invest in Chile and is preparing the implementation process. - Landing: Cases in which a company has already started to invest and has hired its first employee in Chile but has not yet launched regular operations. - Aftercare: Cases in which the investment process has been completed and regular operations have been launched (investment has materialized). Base year: June 2017. Companies in the services sector: InvestChile.
Component IB. Promoting services exports through trade promotion and positioning of sector brands								
Companies in the services sector that receive export training each year	Number	45	45	45	45	45	180	The export coaching methodology will be used to support the services sector. Source: ProChile's Strategic Development Division. Baseline: 45 companies (year 2016).
Companies in the services sector supported by grants each year	Number	39	39	39	39	39	156	Source: ProChile's Strategic Development Division. Baseline: 39 companies (year 2016).

Output indicators	Unit of measurement	Baseline	2018	2019	2020	2021	Total	Comments
Companies in the services sector that participate in business roundtable meetings	Number	150	150	150	150	150	600	Source: ProChile's Strategic Development Division. Baseline: 150 companies at business roundtable meetings (year 2016).
Component IC. Building business capacity in the services sector through instruments that increase quality, marketing, clustering, and innovation								
Companies in the services sector that are certified	Number	0	7	7	8	8	30	Source: CORFO report. Baseline: 0 (year 2016).
Companies in the services sector that receive clustering support to improve competitiveness	Number	0	58	58	58	58	232	This refers to support provided through the node and cluster instrument. Source: CORFO report. Baseline: 0 (year 2016).
Film and audiovisual projects supported in the area of marketing and distribution in export markets	Number	10	12	12	12	12	48	Source: CORFO report. Baseline: 18 (year 2016).
Component ID. Enhancing promotion of the creative industries sector by organizing national and international events								
National creative industries market events	Number	1	1	1	1	1	4	The objective is to organize national events for sellers in the creative services sector as well as traditional productive sectors in order to strengthen the national creative industries market. In 2020, the event will be the Cultural Industries Market of the South (MICSUR) to be held in Chile. Source: National Council for Culture and the Arts (CNCA) report, 2016.
Participation of national delegations at international creative industries market events	Number	1	1	0	1	0	2	A delegation will be sent to MICSUR Sao Paulo in 2018, and Chile will be the host country for MICSUR 2020. Source: CNCA report, 2016.
Organization of MICSUR event to take place in Chile in 2020	Number of events	0	0	0	1	0	1	The objective of MICSUR is to create and consolidate a platform for knowledge, dissemination, promotion, circulation, and marketing of goods and services generated by cultural and creative industries in South America. Source: CNCA report, 2016.
Component II. Developing human talent to increase the supply of professionals and experts in the services sector in areas where gaps have been identified								
Individuals trained in programming each year	Number	70	500	500	500	500	2,000	Source: CORFO report. Baseline: 70. A pilot program was implemented in 2016, which trained 70 people.
Individuals who receive English and soft skills training each year	Number	0	350	350	350	350	1,400	Source: CORFO report Baseline: 0 (year 2016).

Output indicators	Unit of measurement	Baseline	2018	2019	2020	2021	Total	Comments
Individuals trained each year in global services areas based on private sector demand	Number	0	2,000	2,000	2,000	2,000	8,000	Source: SENCE report Baseline: 0 (year 2016).
Component III. Studies and consulting services to strengthen institutional management and services sector support programs								
Update of sector strategies study	Number	0	1	1	1	1	4	Source: InvestChile report Baseline: 0 (year 2016).
Development and implementation of monitoring and evaluation mechanisms	Number	0	1	1	1	1	4	Source: InvestChile report Baseline: 0 (year 2016).
Strategic studies	Number	0	0	2	1	2	5	Source: SENCE report Baseline: 0 (year 2016)

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Chile

Project number: CH-L1138

Name: Program to Support Chile's Global Services Export Sector

Executing agency: Office of the Secretary and General Administration in Chile's Ministry of Finance

Prepared by: Francisco Lois, Financial Management Specialist; David Salazar, Procurement Specialist; and Roberto Monteverde, Procurement Consultant.

I. EXECUTIVE SUMMARY

- 1.1 A risk management workshop was conducted to identify the most important risks to execution of the program, evaluate them, and agree on how to mitigate and monitor them with the Ministry of Finance's Office of the Deputy Secretary for Finance, as the executing agency for the program. As a result, the fiduciary risk was determined to be low.
- 1.2 Based on the assessment, it was determined that the officials have a high level of knowledge and experience in the use of the public procurement system known as ChileCompra, which will be the mechanism used to carry out procurement processes and execute expenditures for the program, and that there are adequate policies, procedures, and controls in place.
- 1.3 The program calls for the sub-executing agencies to carry out activities previously agreed upon with the executing agency for the program, which will be financed with the program resources. Subject to the Bank's no objection, the executing agency will sign execution agreements with the sub-executing agencies, which will stipulate their execution commitments and the mechanisms for transferring funds and substantiating expenditures incurred by the sub-executing agencies.
- 1.4 Transfers may be made through the advance of funds or reimbursement of expenditures modality. The activities carried out and expenditures incurred to finance them will be substantiated in a report to the executing agency. Based on these expenditures and those incurred by the executing agency, the executing agency will submit requests for loan proceeds to the Bank under the advance of funds or expenditure reimbursement modality.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The executing agency and the sub-executing agencies work within the public financial administration system, using primarily the government's financial management information system (SIGFE) for budgets, accounting, and payments.

They also have solid internal audit units and are overseen by the Comptroller General of the Republic (CGR). The Bank assessed the level of development of the following national systems: budget; treasury; accounting; internal audits of the government, and external audits. It determined that their level of development is high. The Ministry of Finance is currently executing project 2674A/OC-CH and recently completed project 2539/OC-CH, both of which used national systems and demonstrated low fiduciary risk.

- 2.2 The executing agency and the sub-executing agencies all use the ChileCompra system for procurement management. This is a robust public procurement system with a modern and efficient electronic system, through which most of the country's public procurement processes are transacted.

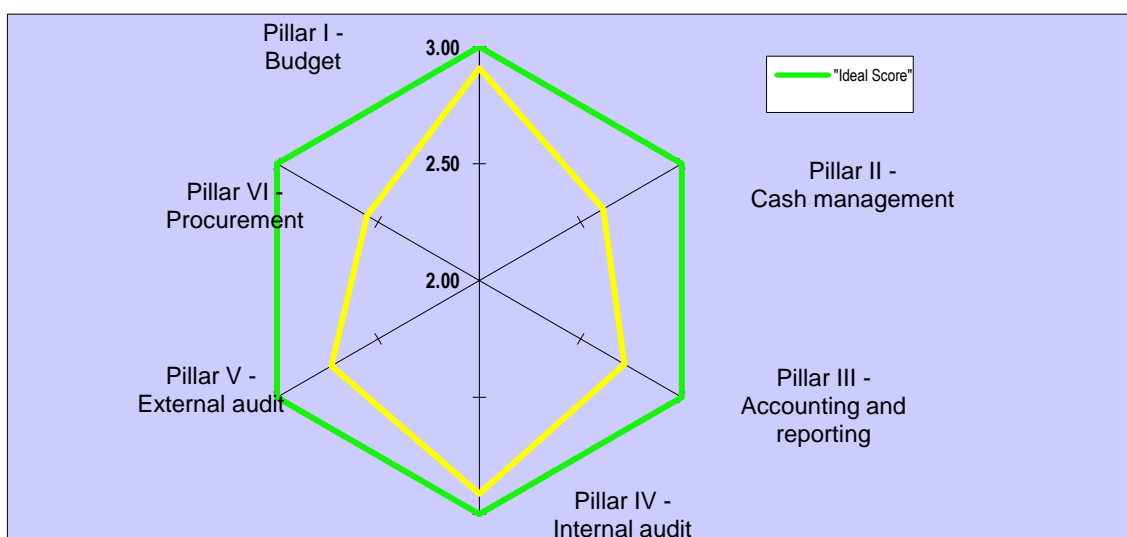
III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 **Procurement and financial fiduciary risk.** The main fiduciary risk related to procurements is potential noncompliance with the procurement plan and in turn the annual work plan. Due to the nature of the program, most of the loan proceeds will be used to select and contract consulting services (individuals and goods), which will be carried out by the different sub-executing agencies of the Ministry of Finance, which should have sufficient terms of reference, available staff on technical teams with the required longevity, and knowledge about applicable procedures within the scope of the Bank's validation of country procurement systems. Although the financial risk is considered low, continuous monitoring is required to ensure that project execution unit (PEU) staff are familiar with the Bank's financial policies (OP-273-2, OP-274-2, guidelines on disbursements, financial reports, and external audits).
- 3.2 **Mitigation measures.** The project will make full use of the country financial management systems and will be audited by the CGR, in accordance with the terms of reference that the Bank agreed upon with it, as well as those set out in the letter of agreement signed in May 2012. A project execution unit (PEU) will be created at the level of the Ministry of Finance's Office of the Deputy Secretary for Finance. It will be staffed by individuals with experience executing loan contract 2539/OC-CH, including a procurement specialist with knowledge and experience in public procurement processes so that procurements are executed in a timely and coordinated manner within each component of the program. A financial-accounting specialist will also be added who has experience in the use of the financial management information system (SIGFE) and in the preparation of financial reports. This specialist will be responsible for the timely and accurate reporting of program transactions within the executing agency and will prepare disbursement requests, supporting documentation, and financial statements for the program. The sub-executing agencies will also receive training on how to prepare documents, in order to carry out the procurement processes included in their respective procurement plans. Finally, the internal audit will follow up on the recommendations of CGR audits; execution agreements will be signed with the sub-executing agencies and must have the Bank's statement of no objection; and a launch and an update workshop will be conducted, along with continuous training programs for the executing agency as well as the sub-executing agencies.

Table 3.1 - Determination of risk level of the executing agency

Pillars	Score		Development level	Risk level
	Ideal	Actual		
Pillar I – Budget	3.0	2.91	High	Low
Pillar II – Cash management	3.0	2.61	High	Low
Pillar III – Accounting and reporting	3.0	2.72	High	Low
Pillar IV – Internal audit	3.0	2.91	High	Low
Pillar V – External audit	3.0	2.73	High	Low
Pillar VI – Procurement	3.0	2.56	High	Low
Program financial management system and procurement development level	3.0	2.74	High	Low

Figure 3.1 - Determination of risk level of the executing agency



IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE CONTRACT

- 4.1 Based on the agreements reached with the executing agency, those to be included in the Special Conditions are as follows:
- For advance of funds reporting purposes, the same exchange rate will be used as the one used to convert resources disbursed in U.S. dollars to the borrower's local currency. For reimbursements of expenditures chargeable to the loan and the local contribution, the exchange rate in effect on the first day of the month in which the disbursement request is submitted to the Bank will be used.
 - Within 120 days after the close of each budget year during the loan's disbursement period, the executing agency will submit the program's audited financial statements, which have been duly audited by independent auditors acceptable to the Bank based on the terms of reference previously agreed

upon with the Bank. The final report will be submitted within 120 days after the date stipulated for the last disbursement of the loan proceeds.

- c. New advances may be requested when supporting documentation has been provided for 65% of the total advance disbursed.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The fiduciary agreements and requirements for procurements establish the provisions applicable to the execution of all procurements planned for the project.

A. Procurement execution

- 5.2 **Procurement of works, goods, and nonconsulting services.** Contracts for goods and nonconsulting services generated under the project (the procurement of works is not envisaged) will be executed in accordance with paragraph 5.4, "Use of country procurement system," and paragraph 5.6, "Thresholds for international competitive bidding and international shortlists (US\$ thousands)." Procurements for amounts greater than those indicated in 2 will be executed using the Bank's respective policies.

- 5.3 **Selection and contracting of consultants.** Contracts for consulting services generated under the project will be executed in accordance with paragraph 5.4, "Use of country procurement system," and paragraph 5.6, "Thresholds for international competitive bidding and international shortlists (US\$ thousands)." Procurements for amounts greater than those indicated in 2 will be executed using the Bank's respective policies.

- a. **Selection of individual consultants.** Contracts for individual consultants generated under the project will be executed in accordance with the provisions of V.1.c, "Use of country procurement system."

- 5.4 **Use of the country procurement system.** The country procurement system in Chile, approved for advanced use by the Bank,¹ will be used for the procurement of: (i) goods and nonconsulting services, up to the threshold for national competitive bidding (NCB); (ii) consulting services, up to the threshold of the shortlist comprised of national firms; and (iii) individual consultants, with no thresholds. Above these threshold amounts, any procurements or contracts that are fully or partially financed by the Bank will be carried out following the procedures set out in the Policies for the selection and contracting of consultants financed by the IDB (document GN-2350-9) and the Policies for the procurement of works and goods financed by the IDB (document GN-2349-9) or will be fully financed from the local contribution, in the event that the executing agency wishes to use only national legislation. Any system or subsystem that is subsequently approved will apply to the operation. The procurement plan for the operation and

¹ In December 2011, the Bank's Board of Executive Directors approved the advanced use of the country procurement system in Chile for Bank-financed operations. The current threshold amounts established for Chile are: (i) US\$350,000 for works; (ii) US\$350,000 for goods and services; (iii) US\$500,000 for consulting services; and (iv) the Bank has not established thresholds for individual consultants.

all updated versions will indicate which procurements will be carried out through approved country systems.²

- 5.5 Any revision of the technical specifications or terms of reference for procurement items considered key or important in the procurement plans prepared during the execution of this loan operation must have the Bank's prior no objection, as this is an area for which the project's sector specialist is responsible.
- 5.6 **Thresholds for international competitive bidding and international shortlists (US\$ thousands)**

Method	ICB – Works	ICB – Goods and nonconsulting services	International shortlist – Consulting services
Threshold	5,000	350	500

B. Main procurement items

- 5.7 Details of the main procurement items can be found in the procurement plan (see [required electronic link 3](#)).

C. Procurement supervision

- 5.8 The procurement supervision method will primarily be ex post and as established in the approved country systems.³ This ex post review concerns processes and not the technical relevance of the expenditure, which will be reviewed on an ex ante basis by the sector specialist for those cases specified in the procurement plan.
- 5.9 The Bank's procurement reviews will take a preventive approach, in accordance with the project supervision plan. Ex post review reports will include at least one physical visit⁴ to inspect procurement processes subject to ex post review.
- 5.10 These procurement review visits by the Bank will be supplemented by the results of the memorandum of understanding with the CGR, which stipulates that the CGR will examine procurements processes subject to ex post review on an annual basis and submit reports with the respective findings to the Bank. In addition, the internal audit unit of the executing agency will follow up on any weaknesses identified in the execution of procurement processes.

D. Special provisions

- 5.11 **A launch workshop with the executing agency** and each of the sub-executing agencies that will carry out procurement processes will be conducted, which will include the internal audit unit of these agencies.

² Should the Bank approve another system or subsystem, it will apply to the operation in accordance with the terms and conditions of the loan contract.

³ Responsibility, support for the review, and the methodology to be used are described in the document [Ex post procurement guidelines](#). The procurement plan will indicate which review modalities will apply for each procurement process, i.e.: (i) ex post; (ii) ex ante; or (iii) country system.

⁴ The inspection will verify the existence of the procurements, leaving verification of quality and compliance with specifications to the sector specialist.

- 5.12 **Training for the sub-executing agencies** will be offered on how to prepare their respective procurement plans, which will subsequently be consolidated by the Ministry of Finance's PEU into the procurement plan for the program.

E. Records and files

- 5.13 Documentation on procurement processes will be kept in the offices of the Office of the Deputy Secretary for Finance, acting as the entity responsible for program management, as well as at each of the sub-executing agencies that carry out each of the specific projects that make up the program. For ex post review purposes, it is essential that records and files be properly organized, classified, and updated with all documentation generated by the procurement processes.

VI. FINANCIAL MANAGEMENT

A. Programming and budget

- 6.1 The Ministry's budget is part of the national budget, as defined in the Basic Law on Public Financial Administration. The Ministry of Finance, acting through its Budget Division, is responsible preparing the public sector's budget. The executing agency uses SIGFE for budget management and control. Given the interrelated nature of the budget systems, loan operations must be included in the national budget in order to be able to access funds (loan and local contribution), and for this reason use of the budget system is not expected to cause any problems that would affect execution of the project.

B. Accounting and information systems

- 6.2 Although the CGR is responsible for keeping the public accounts and formulating principles and policies, for present purposes the accounting is decentralized and the institutions directly record transactions in their own accounting system. The program will have a chart of accounts where all activities financed with the loan or the local contribution are recorded in SIGFE under a special transactions unit for the project. The executing agency has a financial information system and an internal audit structure that are appropriate for its purposes. The semiannual progress reports to be submitted to the Bank should include the follow-up on any observations made in the audit reports, as well as a report reconciling the accounting records of the executing agency and the Bank.
- 6.3 **Disbursements and cash flow** (coordinated with or without use of the country system for cash management).
- 6.4 The National Treasury maintains and controls the consolidated fiscal account through which it provides funding based on the schedule of cash in accounts kept by the institutions, and it also receives revenue. These institutions are autonomous in terms of the management of these bank accounts, which must be approved by the CGR in order to be opened. In the executing agency, payments are processed through the SIGFE cash management module within 30 days after the goods and/or services procured have been accepted by the requester, subject to the issuance and registration of purchase orders. The system has various controls in place at the stage of approval and authorization of funds.
- 6.5 **Disbursement methods.** The following disbursement methods may be used:

- a. **Advances.** Funds are advanced based on liquidity needs arising from the financial plan (coordinated with the execution plan, the annual work plan, and the procurement plan). The maximum amount of an advance will be the amount required to cover expenses for a maximum period of six months. New advances will be made when supporting documentation has been provided for 65% of the total advance disbursed.
 - b. **Reimbursement of the executing agency.** The executing agency is reimbursed for payments it makes using its own resources and for substantiated expenditures incurred by the beneficiary entities.
 - c. **Direct payments.** These are payments made by the Bank to suppliers or contractors on behalf of the executing agency for eligible goods and services to be used to execute the project.
- 6.6 **Disbursement requests.** The Bank will process these requests in accordance with the forms required in the Disbursement Guidelines once the conditions precedent to the first disbursement have been met. They must be approved by a designated official of the executing agency whose signature is on file with the Bank. Any bank fees charged on disbursements are the responsibility of the executing agency.
- 6.7 **Supporting documentation.** The rendering of accounts need not be accompanied by supporting documentation for payments made (original vouchers or photocopies). The executing agency is responsible for keeping the required accounting records and storing copies of the originals of all supporting documentation, which must be properly cross-referenced to the respective approved requests. Documentation supporting the expenditures or payments will be reviewed after the funds have been disbursed by the Bank. The external auditors perform the ex post review of disbursements.
- 6.8 **Origin of goods and services.** Loan proceeds may only be used to pay for goods and services originating in member countries of the Bank.
- 6.9 **Eligible expenditures.** The Bank considers eligible expenditures to be those that: (i) are necessary for the project and are in line with its objectives; (ii) comply with the project's policies and contracts or legal agreements; and (iii) are properly recorded and substantiated at the executing agency.
- 6.10 **Final reporting period and closing date.** The executing agency will submit the last request for an advance no later than 30 days before the date of the last disbursement, with the understanding that the supporting documentation for this advance will be submitted to the Bank during the closing period. No funds will be disbursed after the date of the last disbursement. The executing agency will have a maximum of 90 days from the date of the last disbursement to submit the final accounting for the advance, return any unsubstantiated funds, and perform any other activity required to complete the timely final accounting for the project. The period that starts on the closing date (30 days) should only be used to make final adjustments to the audited financial statements and complete any signature and approval procedures that the executing agency may have.

C. Internal control and internal audit

- 6.11 The internal control system is based on the Ministry's organizational chart, strategic plans, and operating and control procedures approved by the government's Internal Audit Board, as well as on administrative policies on ethics and integrity, Law 20285 on transparency and access to public information, legal, regulatory, and administrative rules and regulations, verification and evaluation mechanisms, and internal audits. The Internal Audit Board reports to the Ministry and has suitable personnel, procedures, plans, and work programs. For this reason, the Internal Audit Department will follow up on all internal control observations made by the program's external auditors, as well as approve responses to these observations, and it will sign off on the financial statements to be audited.

D. External control and reports

- 6.12 In this case the executing agency will use independent auditors acceptable to the Bank, the CGR being one of them. Within 120 days after the close of each budget period and during the loan disbursement period, the executing agency will submit the audited financial statements for the program in accordance with the terms of reference agreed upon with the Bank. The final report will be submitted within 120 days after the date stipulated for the last disbursement of the loan.

E. Financial supervision plan

- 6.13 Given that the risk level was determined to be low, annual and final audited financial statements, as well as financial information in the semiannual technical reports, will be required. The external auditors will perform the ex post review of disbursements. The internal audit unit will follow up on the observations made by the external auditors, as well as the reviews of disbursements and any others that are part of its planning process. The Bank will review the external auditors' reports and working papers, when necessary, and will perform desk reviews and conduct accounting visits at the offices of the executing agency and sub-executing agencies.

F. Execution mechanism

- 6.14 The executing agency, acting through the PEU, will supervise the progress made in the project activities, consolidate information on expenditures and procurement processes for the entire program, and prepare the respective financial statements. The sub-executing agencies will carry out all technical and administrative activities required for the execution of the projects they are responsible for. The budget will be allocated to the executing agency, and each year, through current transfers under subtitle 24 of the Budget Act, the resources will be transferred to each sub-executing agency, as set out in the loan contract and sub-execution agreements signed with the executing agency, under the terms previously agreed upon with the Bank. To this end, the sub-executing agencies will set up units responsible for the project. The executing agency will submit reimbursement requests to the Bank for expenditures incurred for procurements and contracts included in the program's procurement plan and charged to the loan, and to this end will submit a list of expenditures based on the modality established for that purpose. The Bank will verify the relevance of these expenditures against the program's procurement plan and any updated versions submitted by the executing agency. Since the debt will

be assumed by the Office of the Deputy Secretary for Finance and recognized in its balance sheet accounts, the sub-executing agencies will not have a budget line of credit; however, expenditures incurred in connection with the program will be identified and recorded under subtitle 24 of the Budget Act.⁵ Program accounting will be handled at the Office of the Deputy Secretary for Finance, where all expenditures that it incurs as well as transfers made to the sub-executing agencies will be recorded, under either the advance of funds or the reimbursement of expenses modality. To execute the program, the executing agency will be supported by a strategic committee comprised of representatives of the sub-executing institutions and the private sector, which will have the core mission of coordinating the public entities and coordinating these entities with the private sector, and contributing to the strategic outlook and sustainability of the services export agenda in the medium and long term. In addition, the executing agency will be supported by a technical committee in charge of advising the PEU on technical matters, a role that will be carried out by the Public-Private Technical Committee for Services Exports. The program operating manual will contain details on the execution mechanism. The entry into effect of the program operating manual under the terms agreed upon with the Bank, as well as signature of the execution agreements with the beneficiary entities, will be a condition precedent to the first disbursement of the loan.

G. Other financial management agreements and requirements

- 6.15 The program will have a chart of accounts kept at the executing agency's offices where all activities will be recorded in SIGFE under a special transactions unit for operations with international organizations.
- 6.16 The sub-executing agencies for the project will record the expenditures they incur in connection with the project in their own accounting systems and will submit accounting reports to the executing agency, including identification of the respective accounting ticket.
- 6.17 The semiannual progress reports submitted to the Bank should consider the follow-up on any observations made in the audit reports, as well as the report reconciling the accounting records of the executing agency and the Bank.
- 6.18 The supporting documentation for expenditures will be reviewed on an ex post basis. The external auditors will conduct the ex post review of disbursements, and their findings will be used to determine the eligibility of expenditures by the Bank.
- 6.19 The Internal Audit Unit will follow up on any observations made by the external auditors, and will review the financial statements before they are submitted to the external auditors.
- 6.20 A consolidated current account will be set up for the loan proceeds. The bank reconciliation of the current account will be performed monthly.
- 6.21 A financial training workshop will be held, with the participation of the Internal Audit Unit.

⁵ Current transfers in the general rules and regulations for the public budget.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/17

Chile. Loan ____/OC-CH to the Republic of Chile
Program to Support Chile's Global
Services Export Sector

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 enter into such contract or contracts as may be necessary with the Republic of Chile, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Program to Support Chile's Global Services Export Sector. Such financing will be for an amount of up to US\$27,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2017)