

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CHILE

**COMPETITIVENESS AND PRODUCTIVE DIVERSIFICATION SUPPORT
PROGRAM**

(CH-L1134)

LOAN PROPOSAL

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ABBREVIATIONS

CIE	Comité de Inversiones Estratégicas [Strategic Investment Committee]
CNID	Consejo Nacional de Innovación para el Desarrollo [National Council for Development Innovation]
CORFO	Corporación de Fomento de la Producción [Chilean Development Corporation]
FIA	Fundación para la Innovación Agraria [Foundation for Agricultural Innovation]
FIE	Fondo de Inversiones Estratégicas [Strategic Investment Fund]
LIBOR	London interbank offered rate
MINECON	Ministry of Economy, Development, and Tourism
NPV	Net present value
OECD	Organization for Economic Cooperation and Development
PBP	Programmatic policy-based loan
PDP	Productive Development Policy
SAG	Agriculture and Livestock Service
SERNAPESCA	National Fisheries and Aquaculture Service
WAL	Weighted average life

PROJECT SUMMARY

CHILE COMPETITIVENESS AND PRODUCTIVE DIVERSIFICATION SUPPORT PROGRAM (CH-L1134)

Financial Terms and Conditions				
Borrower: Republic of Chile		Flexible Financing Facility^(a)		
		Amortization period:	12 years	
Executing agency: Ministry of Economy, Development, and Tourism (MINECON), through the Economy and Small Business Branch		Original WAL:	12 years ^(b)	
		Disbursement period:	1 year	
		Grace period:	12 years	
Source	Amount (US\$)	%	Inspection and supervision fee:	^(c)
IDB (Ordinary Capital)	35 million	100	Interest rate:	LIBOR-based
Total	35 million	100	Credit fee:	^(c)
			Currency of approval:	U.S. dollars from the Ordinary Capital
Project at a Glance				
<p>Project objective/description: The general objective of the programmatic series is to promote productive transformation through economic diversification, improving the competitiveness of strategic sectors, and support for crosscutting projects representing major country challenges associated with productive transformation. The objective of the first individual operation is to support the implementation of a fund to promote public and public-private initiatives in strategic sectors that promote productive transformation.</p> <p>The specific objectives are to: (i) maintain a stable macroeconomic environment; (ii) consolidate a new institutional structure to identify and finance strategic investments for competitiveness in sectors with a high potential for economic growth and/or to address major country challenges associated with productive transformation; (iii) design, develop, and consolidate public-private intervention mechanisms to support productivity in strategic and crosscutting sectors that represent major country challenges associated with productive transformation; and (iv) establish monitoring and evaluation mechanisms to ensure proper execution of projects and fulfillment of their objectives.</p> <p>This loan is the first of two consecutive operations that are linked technically but financed independently under the programmatic policy-based loan (PBP) modality.</p>				
<p>Special contractual conditions precedent to the sole disbursement of financing: Disbursement of the loan proceeds will be subject to fulfillment of policy reform commitments described in the program components and set forth in the Policy Matrix (Annex II), in addition to fulfillment of any other conditions set forth in the loan contract (paragraph 3.3).</p>				
Exceptions to Bank policies: None.				
Strategic Alignment				
Challenges:^(d)	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>	
Crosscutting themes:^(e)	GD <input type="checkbox"/>	CC <input type="checkbox"/>	IC <input checked="" 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, and currency and interest rate conversions. When considering such requests, the Bank will take operational and risk management considerations into account.

^(b) Original weighted average life may be less, depending on the actual date the loan contract is signed.

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

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

^(e) 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 addressed, and rationale

- 1.1 Chile has experienced sustained growth, even when growth slowed in 2014 due to a less favorable international context. Chile has thus become one of the most competitive economies with the highest per capita income in the region, and its gross domestic product (GDP) multiplied by nearly 6.6 from 1990 to 2015. Simultaneously, Chile has reduced poverty, and its inhabitants' living standards have seen significant improvements. On the international stage, Chile has stood out for its economic openness, leadership in attracting investment, and the quality and stability of its economic institutions, as is reflected in various macroeconomic and fiscal indicators.
- 1.2 However, Chile continues to face significant economic and social challenges. To return to the path of higher growth and generate an economy that provides opportunities for everyone, productivity must increase. Following Chile's return to democracy, productivity rose significantly until 1997, before slowing down between the Asian crisis and 2006. This variable has not seen any major jumps since that year. Even if we exclude the natural resources sector, where productivity was affected by outside factors including deterioration in the law on deposits, productivity growth remains below 1990s levels.
- 1.3 **Diagnostics.** Stagnation in productivity growth is a national concern in Chile. A set of diagnostic assessments¹ has been carried out to identify the major obstacles limiting Chile's growth, but the public policy agendas of recent governments have also aimed to take on this challenge. The most recent was the Agenda for Productivity, Innovation, and Growth 2014-2018. The various assessments indicate some of the general themes hindering productivity growth, which Chile shares with many other world economies, including infrastructure, human capital, regulations, and business climate. However, there are also some features specific to the Chilean economy, such as the lack of diversification and productive sophistication in its specialization pattern.² In the assessments mentioned above, the most striking feature is that Chile's exports present a level of economic complexity³ that is not only below the regional average, but also is the lowest in the Organization for Economic Cooperation and Development (OECD), with the exception of Australia, and below that of countries in the region such as Brazil, Uruguay, Colombia, Argentina, and Costa Rica.⁴
- 1.4 Between 1984-2010, in relative terms, export complexity declined significantly. Changes in productive complexity depend on a country's ability to shift toward more complex goods when the complexity of existing goods is eroded by other competitors. In Chile's case, the entry of complex goods has not been enough to

¹ Some of these are: Rodolfo Lauterbach, "[Chile y la complejidad de sus exportaciones](#)", National Council for Development Innovation (CNID), 2015; "[En Chile Sí Podemos. Iniciativas para mejorar juntos la productividad de Chile](#)", [Confederación de la Producción y del Comercio \(CPC\)](#), 2016; "[Ciencias, Tecnologías e Innovación, para un nuevo Pacto de Desarrollo Sostenible e Inclusivo](#)", CNID, 2017; [Chile: desafíos de la productividad y el mundo laboral](#), International Labor Organization (ILO), 2017; "[Desarrollando una agenda para impulsar la productividad de Chile Diagnóstico Macro](#)", McKinsey, 2015.

² Rodolfo Lauterbach, "Chile y la complejidad de sus exportaciones," CNID, 2015.

³ A good is "complex" when it is produced by a few countries, which tend to produce high amounts of goods [Rethinking Productive Development. Crespi et al., 2014](#). Inter-American Development Bank.

⁴ [Atlas of Economic Complexity](#), 2014.

offset that erosion (Crespi et al., 2016), and Chile continues to present an export basket with over 85% natural resource-intensive products and low levels of sophistication,⁵ with 61% alone concentrated in copper and derivatives. Recent studies show that the Chilean export matrix is not only concentrated in this type of products, but the rate at which more sophisticated exports have grown has been significantly lower than in comparable countries, such as Argentina, Australia, or Finland. For example, between 2003 and 2012, Chile added nine new products to its export basket, and none were high-complexity. In contrast, during the same period Finland added 40 new products, of which 10 were high-complexity; Australia added nine, of which four were high-complexity, and Argentina added 27 new products, including four that were high-complexity.⁶

- 1.5 Chile has systematically improved its business climate. However, this has not been enough to diversify its production and exports. Productive diversification is a natural process which may stagnate due to the following factors, among others: (i) problems coordinating the provision of public inputs; (ii) problems coordinating investment plans involving multiple actors; and (iii) learning externalities. These factors determine shortcomings that hinder productive diversification (Crespi et al., 2014).
- 1.6 **The Government of Chile's strategy.** To address the challenges of boosting productivity and productive diversification, through its Agenda for Productivity, Innovation, and Growth,⁷ the current Government of Chile (2014-2018) has implemented a series of programs and initiatives aimed at achieving four strategic objectives: (i) promoting diversification and productive development; (ii) driving sectors with high growth potential; (iii) increasing companies' productivity and competitiveness; and (iv) giving new impetus to exports. These measures were organized based on seven lines of action: (i) strategic investments and sector development plans; (ii) infrastructure for new development; (iii) financing and support for managing small and medium-sized enterprises; (iv) encouraging entrepreneurship and innovation; (v) efficiency in the regulation and supply of public services; (vi) improvements to markets; and (vii) strengthening the institutional framework.
- 1.7 **Productive Development Policy (PDP) in Chile.** The government's strategy is based on the institutional framework for the PDPs that the country has been consolidating for the last several decades. This institutional framework involves the design, implementation, and evaluation of PDPs in Chile and is organized at the strategic, policy, and execution levels. The first level involves setting guidelines and long-term objectives for PDPs. This ability to generate a long-term vision is a basic requirement for overcoming the dynamic inconsistency resulting from changing governments. The National Council for Development Innovation (CNID), a public-private body created in 2005 with the mission of advising the Office of the President of the Republic on identifying, formulating, and executing policies and actions to strengthen innovation, competitiveness, and development in Chile, plays a very important role in this area. Though the CNID has been operational since its inception, its objectives and actions have had a different focus in each government

⁵ [CNID](#), 2017.

⁶ Rodolfo Lauterbach, "[Chile y la complejidad de sus exportaciones](#)". CNID, 2015.

⁷ For further details, see www.agendaproductividad.cl/.

administration. The current council has been operational since 2014, and its major contributions have revolved around the challenges and opportunities associated with mining, ports and logistics, water, and natural disasters. In 2017 the CNID presented its strategic vision via a new national innovation strategy for Chile to 2030, in a document entitled "[Ciencias, tecnologías e innovación para un nuevo pacto de desarrollo sostenible e inclusivo](#)" [Science, technology, and innovation for a new sustainable and inclusive development compact]. A wide variety of stakeholders and studies representing different sectors of Chilean society contributed to building this strategy. Within the strategic framework, but with narrower functions, is Chile's National Productivity Commission (CNP). The Commission is an independent, autonomous advisory body that works to increase productivity. It carries out studies ordered by the Office of the President of the Republic as well as those originating in the body itself.

- 1.8 The policy level involves formulating, financing, and monitoring public policies to reach the objectives of each government administration and contribute to the realization of medium- and long-term strategies. In the context of the PDP, the Ministry of Economy, Development, and Tourism (MINECON) is the most relevant stakeholder, though other ministries such as Energy, Agriculture, and Mining, among others, are also important in this area. The main areas in which MINECON develops, finances, and monitors PDPs are innovation and technological development, developing medium-sized enterprises, public-private dialogue, the digital economy, tourism, fishing, and aquaculture. MINECON has the Innovation for Competitiveness Fund (FIC), which was created in 2006 as a tool to finance horizontal programs in scientific research, innovation, and entrepreneurship developed by specialized public agencies.
- 1.9 The third level involves policy execution. Here, there are specialized agencies including the Chilean Development Corporation (CORFO), INNOVA, Foundation for Agricultural Innovation (FIA), National Fisheries and Aquaculture Service (SERNAPESCA), InvestChile, and Agriculture and Livestock Service (SAG), which work with the government through its ministries. For example, CORFO, INNOVA, InvestChile, and SERNAPESCA are services through MINECON, while the FIA and SAG report to the Ministry of Agriculture. These agencies are responsible for the design, execution, and operative monitoring of programs, instruments, and services which execute policies based on priorities set at the policy level, as well as decision-making when it comes to allocating resources for specific projects and monitoring their results and specific impact.
- 1.10 **Institutional change.** As a central part of implementing the Agenda for Productivity, Innovation, and Growth, the Government of Chile is executing programs and policies aimed at promoting productive transformation. Technical teams from the Bank participated actively in drafting and implementing these programs and policies, as part of its technical dialogue with Chile, and early preparations for this operation.⁸ First, as part of the Strategic Programs or what is also known as the Chile Transforma Initiative, a series of sectors and subsectors were identified as important to Chile's economy today, with the potential and market opportunity to further

⁸ For example, with the activities under the technical cooperation operation: Support for the National Competitiveness and Innovation Agenda (ATN/KR-14675-CH).

develop and penetrate more knowledge-intensive segments.⁹ From these sectors, CORFO established sector working groups, to identify obstacles to sector growth and diversification. Roadmaps resulted from their activities, as specific initiatives to overcome the challenges identified. This new sectorial approach was complemented by the creation of the Strategic Investment Fund (FIE) within MINECON, to identify, select, finance, supervise, and evaluate initiatives aimed at removing the obstacles identified in the sector groups. The National Productivity Commission mentioned above was also created as part of this Agenda's implementation.

- 1.11 **The FIE.** Creating the FIE¹⁰ was a major measure of the Agenda for Productivity, Innovation, and Growth to drive economic diversification and boost productivity. The FIE's institutional structure is comprised of a Strategic Investment Committee (CIE) and an Executive Secretariat (Figure 1). The CIE is a public-private governing body responsible for making decisions regarding resource allocation, and it is made up of five ministries (Economy, Development, and Tourism; Finance; Mining; Energy; and Agriculture) and three representatives from the private sector. The Executive Secretariat is comprised of the executive secretary and a team of seven specialized professionals.

Figure 1. FIE Institutional Structure



- 1.12 The FIE supports projects or actions that: (i) facilitate productive investment, from either the public or private sector, in areas where public sector intervention is justified due to a market failure; (ii) promote productive development in priority sectors where the country has comparative advantages and high potential for growth and job creation, where gaps limit the country's ability to take advantage of opportunities, and in sectors where the government has set a priority and committed to taking

⁹ Work defining these sectors was based on prior studies by the National Council for Innovation and Competitiveness (CNIC), which preceded the CNID.

¹⁰ The FIE was created by Law 20,798 on the Public-Sector Budget Law in 2015, and regulated by Ministerial Resolution 199 issued by MINECON in 2014.

action; (iii) promote activities stemming from plans of action agreed upon as part of public-private coordination, particularly from the Strategic Programs and CORFO's Integrated Development Initiatives; and (iv) are aimed at generating technological, entrepreneurial, and innovation capacities in areas where gaps have been identified in production or opportunities, and for which there is high potential for growth and/or job creation.

- 1.13 **The role of the FIE.** Within the PDP in Chile, the FIE's role, which is not covered by any other agency or institution, is to finance sector-specific public inputs.¹¹ The FIE has begun this task working with a set of strategic sectors for Chile. The sectors and priority themes were a subset of those identified by the Chile Transforma Initiative,¹² in which 11 sectors were selected¹³ (Mining, Tourism, Healthy Food, Creative Economy, Construction, Fisheries and Aquaculture, Solar Industry, Exports Logistics, Smart Industry, Advanced Manufacturing, and Health), and Strategic Programs were developed in each sector at the regional and mesoregional levels.¹⁴ During its first several years in operation, the FIE's CIE has decided to focus its resources on six of the 11 sectors/themes of the Chile Transforma Initiative, so as to achieve more significant impacts in areas with greater growth potential, and which also had higher levels of advancement and consensus within their governance. These six sectors are: mining, healthy food, fisheries, aquaculture, construction, solar industry, and smart industry. It is important to note that the idea of productive diversification and transformation that is part of the current agenda driving the Government of Chile does not work on traditional concepts of sector specialization. In traditional literature from Latin America, productive diversification policies tended to propose that countries of the region export goods or services from new sectors, particularly manufacturing sectors distinct from traditional sectors, which are generally natural resource-based. In contrast, Chile's current strategy seeks to promote sectors where the country has shown it has a current or latent comparative advantage, and has an opportunity in the international markets. This strategy promotes greater sophistication in the production of goods, services, and technologies linked to each of these sectors. In a way, natural resource-based sectors are treated as a springboard to advance productive diversification. Therefore, the six sectors selected by the FIE include several which today form the

¹¹ We use the term "public inputs" rather than "public goods," as it has a broader definition and has been used by many authors such as Ricardo Hausmann or Dani Rodrik, in order to describe the set of enabling and complementary activities and actions from private activity, which the public sector carries out, and which tend to include sector specificity (See, for example, Ricardo Hausmann, "*The Other Hand: High Bandwidth Development Policy*", CID Working Paper 179, September 2008).

¹² The sector selection process carried out by the Chile Transforma Initiative was inspired by the European Union's Smart Specialization Programs.

¹³ The criteria used to prioritize sectors and themes were: market potential, significant supply, coordination failures, sustainability, and timeliness.

¹⁴ Additionally, there are many Strategic Programs at the national, mesoregional, and mainly regional levels that are not supported by the FIE. Mesoregional programs refer to those seeking to benefit a sector or activity in more than one region.

main basis for the Chilean economy's insertion in global trade.¹⁵ This is also consistent with the cross-cutting strategy for developing high-value service exports, which the government is promoting through the Finance Branch and the Public-Private Technical Council on Service Exports, which is already being supported by the Bank's technical teams.¹⁶

- 1.14 **Identifying sectoral public inputs.** In accordance with international good practices, the FIE ensured that identifying critical needs for each sector and lacking public inputs, would be a participatory process engaging key actors from the public and private sectors, academia, and independent experts. Necessary public inputs were identified within the framework of the Strategic Programs, wherever they interact with different stakeholders, to develop a joint vision for the sector and identify both obstacles and solutions. This identification process was based on a methodology from the University of Cambridge Institute of Manufacturing used to draft technological roadmaps, and was carried out under the supervision of CORFO's Competitive Development Office. The process involved three stages--stimulation, diagnostics and defining interventions, and external validation. A governance structure was created for each of the national and mesoregional strategic projects, with a broad public-private council, an executive committee, and a technical team. Simultaneously, it was granted a budget to implement the process. FIE and MINECON's support for drafting the road maps was twofold--by financing the technical teams and its Executive Secretariat's participation in the Programs and Strategic Initiatives Committee, which externally validated the roadmaps.
- 1.15 Experience has shown that in order to provide sectorial public inputs, there are major coordination challenges to overcome, often within the public sector itself. Experience in the region and in other developed countries has demonstrated that many interventions aimed at generating vertical public inputs fail, not due to flaws in their identification, but because of a lack of public-private coordination or insufficient resources to ensure the inputs are provided. Though there are indeed some vertical public inputs that do not require greater budgetary resources, such as simplifying overly cumbersome regulation, there are others, for example phytosanitary control services or research applied to solving sectorial technological problems, which may be costlier. In this context, the FIE's main role is to act as a coordination and financing mechanism for some of the projects and actions stemming from the road maps for the six sectors prioritized by the Fund. The FIE also aims to support not only dynamic sectors or subsectors of the Chilean economy, but also, in the future, to be able to direct its efforts toward overcoming major country challenges which that the country's sophistication potential, to drive productive diversification and may

¹⁵ Some examples of projects approved thus far may illustrate this point: (i) there are aims to work with mining industry providers to significantly increase the quantity of their goods and service exports to the global mining industry; (ii) within this same sector, there is a project financing technology for mining waste treatment. Mining waste is a contingent environmental liability, but the technology may also extract value from that waste and then export the solution to other mining countries; and (iii) in the solar industry, a project seeks to develop the technology to adapt photovoltaic solar panels to work better with very high levels of solar radiation in the north of the country, generating knowledge and technology which may be used in other regions around the world with similar features.

¹⁶ Program to Support Chile's Global Service Export Sector (CH-L1138): Operation currently in the design phase that will include a coordination mechanism between institutions related to the export service sector, such as ProChile, CORFO, and InvestChile. Those FIE-supported service sector companies with export potential may be supported in their internationalization process by instruments from this program.

cut across several different sectors.¹⁷ With this in mind, the FIE has begun its operations and taken its first steps toward that goal. In 2015 and 2016, its first projects were approved, and their execution began in 2016 and 2017, to continue until 2019, for a total of approximately US\$160 million.

- 1.16 In this context, Chile has requested a programmatic policy-based loan (PBP) to help consolidate its policies and deepen the productive diversification efforts already underway. The Bank's program seeks to support the FIE in overcoming two types of critical challenges: (i) those related to its consolidation as a new institutional framework under the Chilean PDPs; and (ii) those related to implementing these new mechanisms for the selection, financing, and monitoring of sector initiatives. The Bank provided technical support in the design and creation phases of this new institutional framework and the new vertical policies in 2015 and 2016. With this PBP, it is expected that the Bank will support consolidation of the FIE's institutional framework and of the vertical policies it finances during the first operation, with its operating arrangement under way at least on a pilot basis, while the second operation is expected to support improvement of FIE's work, with reformed execution mechanisms, in keeping with the recommendations from the evaluations and consulting services that will be engaged to that end. Both operations will support institutional reform work and implementation of the new policies.
- 1.17 **Sector knowledge.** The Bank's technical teams have supported this new stage in developing Chilean PDPs via technical support and nonreimbursable financing. A technical dialogue has been underway with MINECON and CORFO since 2014, on developing new strategic policies. This dialogue continued throughout 2015 and 2016 with support from technical cooperation operation, "Support for the National Competitiveness and Innovation Agenda" (ATN/KR-14675-CH) with funds from the "Public Capacity Building Korea Fund for Economic Development". With financial support from this technical cooperation operation, a report by Korean experts was commissioned on Chilean science, technology, and innovation system governance, with an in-depth diagnostic of the system and a series of policy recommendations. Additionally, in late 2016, at the request of MINECON, a technical team comprised of Bank and external experts analyzed the FIE's first steps, and completed an early evaluation of that experience, and presented a report with policy recommendations, several of which have formed the basis for the technical work supporting this operation ([Analysis of the Strategic Investment Fund \(FIE\) and Suggested Improvements](#)). The Bank is also supporting innovation in other areas of Chilean PDPs, with projects such as the Program to Support Chile's Global Service Export Sector (CH-L1138) and the Financing Productive Development in Chile Program (1585/OC-CH), in addition to a project that innovates with productive policies highly specific to indigenous sectors, through the Indigenous Development and Promotion Program (3693/OC-CH).

¹⁷ In the new national innovation strategy recently presented by the CNID, major enabling country challenges are defined, such as the major long-term national challenges, which encompass crosscutting and more comprehensive themes than typical sectoral policies, for example advancements in mitigating the effects of natural disasters, to which Chile is particularly vulnerable. Today, for example, Chile is a global benchmark in earthquake-safe construction and may use that as a springboard to specialize in producing goods and services related to overcoming those challenges (see "[Ciencias, tecnologías e innovación para un nuevo pacto de desarrollo sostenible e inclusivo](#)", CNID, 2017).

- 1.18 Activities developed within the framework of the technical cooperation and other operations described above comprise a set of activities that make the best use of the technical capacities the Bank has made available to the Government of Chile to generate and strengthen institutional and policy innovation in its PDPs focused on creating the FIE. These activities involve both the technical contribution of Bank specialists, as well as the creation of mixed technical teams, with officials from various areas of the Bank and external experts, at the request of the Government of Chile. It is expected that by developing this operation, the Bank will continue contributing as an external technical reviewer of advancements made, by supporting new reforms through technical cooperation developed to that end, and validating achievements or highlighting opportunities for improvement as an impartial third party.
- 1.19 Implementation of this program will be supported through an operational support technical cooperation operation, “Support for the Consolidation of the Strategic Investment Fund” (CH-T1197), the design and approval of which is being processed independently of this operation. That operation aims to finance the following studies and consulting services in support of the FIE’s consolidation: (i) an analysis of the PDP institutional framework in Chile in which the FIE is present, in order to identify the best institutional specialization strategy to complement those already in place; (ii) a study on the budget mechanisms currently used by the FIE and suggested improvements; (iii) a report identifying opportunities for improvement in the monitoring system, in order to redesign FIE-financed projects; (iv) a proposed impact evaluation system for projects financed; and (v) the development of an FIE sustainability strategy. Through all of these actions, at the end of the second operation of the program, Chile is expected to have a robust tool for mitigating coordination failures and providing the public inputs needed for productive transformation. That change involves boosting productivity in existing sectors and developing new sectors based on innovation and technology.
- 1.20 **Strategic alignment.** The project is consistent with the Update to the Institutional Strategy (UIS) 2010-2010 (document AB-3008) and strategically aligns with the development challenges of: (i) productivity and innovation; and (ii) economic integration via support for a fund providing inputs to improve innovation capacities and for productivity gains in key sectors of the Chilean economy. The alignment is reflected in the following program outcome indicators: (i) increasing total investment (public and private) in public inputs in strategic sectors to promote productive diversification; and (ii) targeting FIE investment to export sectors. The program is also aligned with the crosscutting area of Institutional Capacity and Rule of Law via support for strengthening the Chilean institutional framework in PDPs, notably from the FIE. One outcome related to this alignment is that it is expected that the FIE will focus its investments in strategic sectors to improve its institutional specialization within the framework of Chilean PDPs. The program is aligned with the objectives of the Country Strategy with Chile 2014-2018 (document GN-2785), specifically with the priority area of competitiveness and innovation and with the strategic objectives for promoting innovation; and increasing the level of institutionalization within the Chilean National System for Innovation. Additionally, the program is consistent with the Innovation, Science, and Technology Sector Framework Document (document GN-2791-3), with respect to the business climate for private sector development and the priority area of the Growth and Social Welfare Sector Strategy (document GN-

2587-2) referring to building institutional capacities to implement innovation policies. The project is also consistent with the Sector Strategy for Support to Regional and Global Competitive Integration (document GN-2565-4), and the Integration and Trade Sector Framework Document (document GN-2715-6), particularly with the first of the criteria indicative of alignment, that is, multinational targeting, given that one of FIE's objectives is to improve the Chilean economy's productive diversification and, to that end, it finances projects aimed at improving Chile's international foothold in key export sectors, such as aquaculture, mining, or forestry. The project is included in the Country Program Document for 2017 (document GN-2884).

B. Objectives, components, and cost

- 1.21 **Program objective and components.** The overall objective of the programmatic series is to promote productive transformation through economic diversification, the competitiveness of strategic sectors, and crosscutting projects which represent major country challenges associated with productive transformation.¹⁸ The objective of the first individual operation is to support the implementation of a fund to promote public and public-private initiatives in strategic sectors promoting productive transformation. The specific objectives are to: (i) maintain a stable macroeconomic environment; (ii) consolidate a new institutional structure to identify and finance strategic investments for the competitiveness of sectors with high growth potential in the economy and/or tackle major country challenges associated with productive transformation; (iii) design, develop, and consolidate public-private intervention mechanisms to support productivity in strategic sectors and crosscutting sectors representing a major country challenge associated with productive transformation; and (iv) establish monitoring and evaluation mechanisms to ensure correct project execution and fulfillment of its objectives.
- 1.22 **Component 1. Macroeconomic sustainability.** This component ensures a macroeconomic environment that is consistent with the program objectives and sector policy letter guidelines.
- 1.23 **Component 2. Policy and institutional framework.** This component supports the strengthening and consolidation of the institutional framework and policies aimed at boosting productivity in strategic sectors and meeting major country challenges associated with productive transformation. Notably, this component contributes to consolidating the FIE as an important tool for Chile's PDPs, which is complementary to other system tools, based on knowledge gained in the first several months following its creation, with the possibility for improvement based on proposals by expert advisors. The first operation requires the following conditions: (i) that the FIE, through MINECON's Economy and Small Business Branch, has a budgetary allocation to finance public or public-private initiatives (hereinafter "initiatives") in strategic sectors; (ii) that the FIE has presented to the CIE a proposal for strengthening its institutional framework; and (iii) that financing for the identification, prioritization, and operation system for the initiatives promoting productive transformation has been approved. The latter policy is a central part of the Government of Chile's Agenda for Productivity, Innovation, and Growth, and involves comprehensive work to support critical sectors for inserting Chilean

¹⁸ The meaning of these challenges is clarified in paragraph 1.14.

companies into global markets. This component contributes to consolidating FIE's contribution to these new vertical policies, with its support for public-private sector groups, which are responsible for identifying the major challenges to sector diversification and the demand for public inputs that those challenges present.

- 1.24 Areas where progress is expected moving forward and which have been identified as triggers for a second operation are: (i) continuing this new institutional framework via its financing in successive annual budgets or its consolidation with a law specifically for the FIE, with the following improvements: (a) more specific definition of the FIE's current role in Chilean PDPs (in its mission and operation); (b) changing the makeup of the CIE in order to broaden its plurality and dynamic consistency;¹⁹ and (c) strengthening the capacities of the Executive Secretariat for the entire project cycle; and (ii) continuing public-private programs or initiatives in previously defined strategic sectors, and/or identifying new strategic sectors and/or country challenges associated with productive transformation for FIE support.
- 1.25 **Component 3. Operational framework.** The new policies require effective mechanisms for execution, with multi-actor governance to guarantee transparency and relevance. Based on this implementation, the FIE must consolidate its capacity to identify strategic initiatives, evaluate them, propose improvements, approve them where appropriate, and then monitor and evaluate the results. This component seeks to promote the design, development, and consolidation of public-private mechanisms to support productivity in strategic sectors or more crosscutting sectors that represent major country challenges associated with productive transformation. For the disbursement of this first operation, the following conditions must be met: (i) the FIE, through MINECON, has: (a) established operating procedures to identify, select, approve, and supervise the initiatives promoting productive transformation; (b) established the make-up of the CIE by designating representatives from the public and private sectors, to thereby allow for the allocation of FIE resources; (c) established the operation of the FIE's Executive Secretariat; and (d) begun implementation of at least 28 CIE-approved initiatives promoting productive transformation; and (ii) at least 13 of the initiatives financed by the FIE must be in execution and have: (a) its own advisory body; (b) a prioritization in the road maps of the Strategic Program to which the initiatives report; and (c) management and/or performance indicators approved. To achieve this level of operations, MINECON will have issued decrees and/or resolutions establishing the FIE governing bodies and operational procedures. Additionally, MINECON authorities must have approved the records and reports presented by those in charge of the initiatives, noting their progress.
- 1.26 The following measures have been agreed upon as triggers for the second operation: (i) that operational targeting proposals along with a budget mechanism and a mechanism for monitoring and evaluating FIE impact will have been presented to the CIE for evaluation; and (ii) at least 80% of the FIE-financed initiatives under way have governance mechanisms, management and/or performance indicators

¹⁹ In the early evaluation study, greater private sector participation in the CIE, and a time frame for its mandates not aligned with the political cycle were identified as potentially contributing to consistency in the FIE's medium- and long-term action (see [Analysis of the Strategic Investment Fund \(FIE\) and Suggested Improvements](#)).

with established targets, and progress in their performance and/or management indicators.

- 1.27 **Component 4. Monitoring and evaluation.** Within the framework of this operation's institutional and policy innovations, activities aimed at monitoring and evaluating the initiatives are fundamental to ensuring early problem detection, correcting them, and drawing lessons learned. For this component, the following will be fulfilled prior to disbursement: (i) an operational pilot FIE monitoring system in place; and (ii) a completed cost-benefit analysis for 10 projects in the FIE initiatives portfolio. It is agreed that the following conditions are triggers for the second operation: (i) the FIE monitoring system will be fully operational; and (ii) a proposed impact evaluation methodology for FIE-financed initiatives will be presented to the CIE. The cost of activities planned to trigger the second operation of this component may be financed with the technical cooperation operation supporting this program, CH-T1197.

C. Key results indicators

- 1.28 The framework for measuring the development effectiveness of this program is comprised of the [Results Matrix](#). The outputs in that matrix replicate the Policy Matrix structure (see Annex II), which in turn is aligned with the specific development objectives of this program (paragraph 1.1).
- 1.29 The main output of Component 2 is a proposal for strengthening the FIE's institutional framework, and the indicators are the FIE budget line included in the Economy and Small Business Branch, in the Budget Law, and the established system for identifying public inputs in strategic sectors. This will permit achieving the objective of "consolidating the new institutional structure (the FIE) for identifying and financing strategic investments". The main outputs of the third component aim to ensure that this effectively strengthened institutional framework operates, and is comprised of a system of project proposal windows and a series of projects that have already been financed. This serves the objective to "design, develop, and consolidate public-private intervention mechanisms to support productivity in strategic sectors." The main output indicators of the fourth component are the monitoring system being tested and a sample of ex post economic evaluations that have already been performed. This serves the fourth specific program objective.
- 1.30 Implementing these outputs will achieve two results (related to the previously mentioned objectives): (i) increase investments (public and private) in public inputs in strategic sectors; and (ii) focus FIE investment in strategic sectors and export sectors. Both results aim to verify effectiveness in fulfillment of the program's overall goal of "promoting productive transformation via economic diversification, competitiveness in strategic sectors, and serving more crosscutting projects which represent major country challenges associated with productive transformation".
- 1.31 Lastly, the impacts will be identified at the project level, depending on the specific type of case (projects in partnership with other agencies or public services financing the supply of sector public inputs; or Strategic Technological Programs financing long-term projects to generate new knowledge and technological capacities in strategic sectors; or Integrated Development Initiatives, which seek to finance the collaborative development of public inputs; or high tech Integrated Development Initiatives to finance attracting foreign direct investment in technology-intensive

sectors). Depending on the case, the improvement in productivity indicators (efficiency gains by reducing costs or increasing factor productivity), exports, and research and development investments will be evaluated.

- 1.32 **Economic analysis.** To complete the project economic analysis, it was considered that the FIE had already begun financing a significant number of strategic projects. Therefore, based on this, it was determined that the best economic analysis method was to carry out an ex ante social cost-benefit analysis on a representative sample of projects financed. To date, the financing and initial execution of some 35 projects have been approved. These projects may be classified into four groups: (i) projects in partnership with other agencies or public services financing the supply of sectoral public inputs (representing 32% of the resources approved); (ii) strategic technological programs financing long-term projects to generate new knowledge and technological capacities in strategic sectors (representing 17% of the resources approved); (iii) Integrated Development Initiatives, which seek to finance the collaborative development of public inputs (5% of the resources); and (iv) high tech Integrated Development Initiatives financing the attraction of foreign direct investment in technology-intensive sectors (11% of the resources).²⁰ Based on this, the social cost-benefit analysis was carried out on 10 representative projects (See [Project Economic Analysis](#)).
- 1.33 The program is expected to have a high positive social return by generating benefits derived from higher producer and consumer surpluses, due to productivity gains generated by these interventions. In the baseline scenario, the estimated net present value (NPV) for the typical (median) project from the sample evaluated is US\$13.5 million, and the internal rate of return is 37%. The sensitivity analysis suggests that a positive NPV is 98% certain.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This is the first of two consecutive loan operations that are technically linked but financed independently using the programmatic policy-based loan (PBP) modality, based on Policy-based loans: Guidelines for preparation and implementation (document CS-3633-1). This modality will be used as it best fits Chile's policy calendar while the operation is underway, with presidential elections in November 2017, according to document CS-3633-1, which indicates that this is the most appropriate modality in case of a shift of political support for some program elements. Two operations are expected, the first based on fulfillment of the policy commitments in the Policy Matrix for this operation, and the second once the agreed-upon triggers in this matrix have all been activated.
- 2.2 The first operation amounts to US\$35 million financed from the Bank's Ordinary Capital. The operation is justified pursuant to the provisions of paragraph 3.27 of document CS-3633-1, based on the financing needs that the government believes should come from multilateral organizations, and greater expediency in implementing sector policy reforms. This operation represents close to 0.3% of the

²⁰ Financing for CORFO's horizontal programs and financing for technological roadmaps in priority sectors are not included.

public-sector debt authorization for 2017 and 7% of the financing with multilaterals. Financing needs will be complemented with bond issuance in the domestic market and/or the international market for up to US\$10 billion, to take place throughout 2017.

B. Environmental and social risks

- 2.3 Pursuant to Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (OP-703) and based on the Safeguard Policy Filter, this operation does not require classification. There are no social or environmental risks associated with this project. The program does not finance physical investments or include activities with negative implications for natural resources; on the contrary, it is expected that the suggested reforms will generate positive social and environmental impacts.

C. Fiduciary risks

- 2.4 There is no risk to the operation's financial execution, given that the technical conditions for disbursement will have been substantially met prior to presentation to the Bank's Board of Executive Directors. The proposed financial instrument provides fungible resources not tied to any specific expenses. Therefore, there is no fiduciary risk, as the borrower receiving resources has solid country financial management systems in place.

D. Other project risks

- 2.5 The project team, along with its counterpart in Chile, identified the following medium risks, described in the program risk matrix: (i) interagency coordination was identified as a development risk, in that the FIE must identify and finance initiatives led by different areas of the government, while also monitoring execution under various public agencies. This challenge could delay the execution of each initiative and make it difficult to attain the expected outcomes; and (ii) the probability that a shift in priorities following the next change of government was identified as a public management and governance risk, as this may diminish support for the FIE as an institutional innovation. To mitigate the first risk, the project team and its counterpart agreed to strengthen the early and flexible warning mechanisms for each project, to quickly detect and address any coordination issues.
- 2.6 Insofar as the second medium risk identified, that is, that a new government may arrive with different priorities, negatively affecting a new and still-fragile institutional framework such as the FIE, a set of mitigation measures has been agreed upon. On one hand, it will use the technical and operative work carried out by the Bank with the FIE's early activity evaluation, to contribute to its validation during a new administration's transition period. Additionally, a report by the OECD is expected on the Transforma Programs, which will be added in the same way, given that the possibility of showing positive results from the FIE and associated programs endorsed by impartial third parties will contribute to consolidating this fund with society and future policy makers. On another note, it was agreed with the FIE's authorities that they would carry out activities related to generating and disseminating the program's results, underscoring the initiatives' early gains, with strategies for disseminating this information among key actors. Lastly, an important component for continuing these institutional changes is the private sector's central role throughout the institutional and policy arrangement this project supports. Moreover, there is already participation by relevant private sector stakeholders in

the CIE, and some of the proposed reforms include boosting that participation (in terms of numbers and manner) (with each private sector representative having different representation periods not synchronized with the political cycle). In addition, there are civil society organizations and businesses involved in many of the specific initiatives supported by the FIE, as part of its governance.

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 MINECON, through the Economy and Small Business Branch. This Ministry will be responsible for: (i) providing evidence that the policy commitments for each individual operation were fulfilled in order to make the respective disbursements; (ii) supporting activities required for program fulfillment; and (iii) gathering information on the performance indicators necessary to evaluate program outcomes once the disbursement for each operation has been made.
- 3.2 **Interagency coordination.** The FIE currently has an institutional structure that facilitates coordination with other public bodies in charge of policies related to productive development, as its CIE includes four other ministries (Finance, Agriculture, Energy, and Mining) in addition to the Ministry of Economy. In this early stage, the FIE has already experienced this body's usefulness for requesting changes to the initiatives analyzed, to promote coordination with other ministries' actions. Additionally, the early monitoring system to be implemented by the FIE will allow it to rapidly identify and address coordination flaws in the initiatives' execution that may affect results.
- 3.3 **Special contractual conditions precedent to the sole disbursement of financing. The disbursement of resources from the Bank's financing will be subject to fulfillment of the policy reform commitments described in the program components, and laid out in the Policy Matrix (Annex II), in addition to fulfillment of other conditions set forth in the loan contract.** This will be confirmed using the instruments identified in the Policy Matrix (Annex II), [Means of Verification Matrix](#), and [Monitoring and Evaluation Plan](#). The Bank may request an external audit of the program should this be deemed relevant.

B. Summary of results monitoring arrangements

- 3.4 **Monitoring.** The program's Monitoring and Evaluation Plan is based on monitoring the indicators and targets specified in the following instruments: (i) Policy Matrix; (ii) Means of Verification Matrix; and (iii) Results Matrix. These instruments set the key parameters for supervising and evaluating program outcomes. The IDB will monitor its execution from the Country Office and Competitiveness, Technology, and Innovation (CTI) Division. The executing agency will be responsible for monitoring and follow-up on the operation's results, in coordination with the Bank. The executing agency will provide the Bank with any information necessary to measure fulfillment of both operations, and will supply timely information on its progress.
- 3.5 **Evaluation.** The Monitoring and Evaluation Plan indicates that results will be measured using administrative data from the entire FIE portfolio, and ex post cost-benefit economic evaluations from a representative group of that portfolio. This

ex post evaluation may be financed with resources from technical-cooperation operation CH-T1197, which is currently in preparation. The sample will be comprised of 10 projects selected for the ex ante economic evaluation, and may be extended to other projects from the portfolio. In addition, qualitative evaluation studies will be drafted, like that currently being prepared by the Bank, entitled “[Analysis of the Strategic Investment Fund \(FIE\) and Suggested Improvements](#).”²¹

IV. POLICY LETTER

- 4.1 The Government of Chile and the Bank have agreed on a path of support through this program for institutional and policy innovation represented by the establishment of the FIE. This path is reflected in the Policy Matrix and agreed-upon Results Matrix, but also in the [Policy Letter](#), which will be finalized and signed by the Minister of Finance and presented to the Bank, confirming the direction of this policy and assumed commitments.

²¹ [Angelelli, P., G. Casaburi, C. Sabel, and E. Stein \(2017\).](#)

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Economic Integration -Institutional Capacity and the Rule of Law	
Country Development Results Indicators		
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2785	(i) Fostering innovation; (ii) Improve the institutionalization of Chile's National Innovation System.
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	7.8	
3.1 Program Diagnosis	2.4	
3.2 Proposed Interventions or Solutions	2.4	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	10.0	
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	1.5	
4.5 Sensitivity Analysis	1.5	
5. Monitoring and Evaluation	6.5	
5.1 Monitoring Mechanisms	1.5	
5.2 Evaluation Plan	5.0	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
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	B.13	
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: nformation System, parison, ontracting Individual Consultant, ational Public Bidding.
Non-Fiduciary		
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	The Technical Cooperation (CH-T1151) financed an early evaluation of FIE with a team of internal and external experts at the request of the Government of Chile.
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	The literature on national funds for strategic investments is scarce. The ex-post economic evaluation of a significant group of projects in FIE's portfolio has been included as a policy commitment. This will allow learning about the effectiveness and efficiency of the projects under study.

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

The "Program to Support Competitiveness and Productive Diversification" is the first individual operation of a programmatic loan (PBP). The objective of the individual operation is to support the creation and the initial steps of a fund to finance initiatives in strategic sectors that promote productive transformation (FIE) , through: (i) the consolidation of a new institutional structure for the identification and financing of strategic investments; (ii) the design, development, and consolidation of public-private mechanisms to support productivity; and (iii) the establishment of monitoring and evaluation mechanisms to ensure the correct execution of the fund's projects and the achievement of their objectives.

The vertical logic of the operation is clear: productivity growth in Chile has stagnated, and the diagnostics identifies as one of the main causes the lack of productive diversification and sophistication (which is evident in the low levels of complexity of its exports). The proposed outputs (laws/documents defining FIE's institutional frame, FIE's operational frame, and an M&E system) are aligned with the expected outcomes (incrementing public and private investment in strategic sectors to promote productive diversification, and focalization of FIE's investment in strategic sectors and in export sectors). The monitoring plan allows adequately track both outputs and outcomes.

The economic analysis and the evaluation plan are based on a cost-benefit analysis of a representative group of projects in the portfolio to be implemented by FIE. Relying on the proposed methodology (rather than a general equilibrium model, as commonly done for policy loans) is appropriate given that it is expected that the policies supported will be directly reflected on the effectiveness of the FIE, and because the assumptions used in the model are more realistic. The economic analysis is adequate. The benefits arise primarily from the expected savings (i.e. time savings when applying for permits) and/or expected better results (i.e. increase in sales) for the 10 sub-projects that were analyzed. The costs include the investment costs for the different sub-projects.

The risk of the operation is medium. The main risks are the difficulties in the inter-institutional coordination, and a possible change of priorities with a new government.

POLICY MATRIX¹

Objectives	Commitments for the first operation (2017) (US\$35 million)	Triggers for the second operation
Component 1. Macroeconomic sustainability		
Ensure a macroeconomic environment consistent with the program objectives and sector policy letter guidelines.	The macroeconomic environment is consistent with the program objectives and sector policy letter guidelines.	The macroeconomic environment is consistent with the program objectives and sector policy letter guidelines.
Component 2. Institutional and policy framework		
Support the strengthening and consolidation of the institutional framework and policies to improve productivity in strategic sectors and address major country challenges associated with productive transformation.	<ol style="list-style-type: none"> 1. The Strategic Investment Fund (FIE), through MINECON's Economy and Small Business Branch, has a budget allocation for financing public or public-private initiatives (hereinafter "initiatives") in strategic sectors. 2. Report presented by the FIE to the Strategic Investment Committee (CIE) with proposal for strengthening the FIE's institutional framework. 3. Financing approved for the system for the identification, prioritization, and operation of initiatives promoting productive transformation. <p>Responsible institution: Ministry of Economy, Development, and Tourism (MINECON).</p>	<p>The FIE continues operations via its financing in successive annual budgets, or its consolidation with a law specifically for the FIE, with the following improvements:</p> <ol style="list-style-type: none"> 1. A more specific definition than currently available regarding the FIE's role in the framework of Chilean PDPs (in its mission and operation); 2. Change in the CIE's makeup to broaden its plurality and dynamic consistency;² and 3. Strengthen the Executive Secretariat's capacities throughout the entire project cycle. <p>Continue public-private programs or initiatives in previously defined strategic sectors and/or identify new strategic sectors and/or country challenges associated with productive transformation for FIE support.</p> <p>Responsible institution: MINECON.</p>

¹ Regarding the borrower's requirements, means for verification for each policy condition precedent to disbursement may be included in the loan contract.

² In the early evaluation study, greater private sector participation in the CIE and mandates not timed to match the political cycle were identified as having potential to contribute to the medium- and long-term consistency of the FIE's activities (see [Analysis of the Strategic Investment Fund \(FIE\) and suggested improvements](#)).

Objectives	Commitments for the first operation (2017) (US\$35 million)	Triggers for the second operation
Component 3. Operational framework		
Design, develop, and consolidate the public-private intervention mechanisms to support productivity in strategic sectors or more crosscutting sectors representing major country challenges associated with productive transformation.	<p>The FIE, through MINECON, is operational and has the following:</p> <ol style="list-style-type: none"> 1. Operational procedures established for the identification, selection, approval, and supervision of initiatives promoting productive transformation; 2. A CIE, with representatives appointed from the public and private sectors, to allow for allocation of FIE resources; 3. The FIE has a functioning Executive Secretariat; and 4. At least 28 CIE-approved initiatives promoting productive transformation being implemented. <p>Responsible institution: MINECON.</p>	<p>Proposals for operational targeting, budget mechanism, and monitoring and evaluation of the FIE's impact presented to the CIE for evaluation.</p> <p>Responsible institution: MINECON.</p>
	<p>At least 13 of the FIE-financed initiatives are in execution and have the following:</p> <ol style="list-style-type: none"> 1. Its own advisory body; 2. Prioritization in the road maps of the Strategic Programs to which they report; and 3. Management and/or performance indicators approved. <p>Responsible institution: MINECON.</p>	<p>At least 80% of the FIE-financed initiatives under way have governance mechanisms, management and/or performance indicators with established targets, and progress in their performance and/or management indicators.</p> <p>Responsible institution: MINECON.</p>
Component 4. Monitoring and evaluation		
Establish monitoring and evaluation mechanisms to ensure proper execution of the projects and fulfillment of objectives.	<ol style="list-style-type: none"> 1. Pilot FIE monitoring system in operation. 2. Cost-benefit analysis performed for 10 initiatives in FIE's portfolio. <p>Responsible institution: MINECON.</p>	<ol style="list-style-type: none"> 1. FIE monitoring system fully operational. 2. Proposed impact evaluation methodology for FIE-financed initiatives presented to the CIE for evaluation. <p>Responsible institution: MINECON.</p>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/17

Chile. Loan ____/OC-CH to the Republic of Chile
Competitiveness and Productive Diversification
Support Program

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 Competitiveness and Productive Diversification Program. Such financing will be for an amount of up to US\$35,000,000 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)