

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

CHILE

**COMPETITIVE LOCAL DEVELOPMENT IN THE PROVINCE OF
ARAUCO, REGION OF BÍO BÍO**

(CH-M1029)

DONORS MEMORANDUM

This document was prepared by the project team consisting of: Claudio Cortellese (MIF/OPS, Project Team Leader); Natalia Laguyás (MIF/OPS); Carolina Carrasco (MIF/CCH); Oscar Farfán (MIF/DEU); Gerónimo Frigerio (LEG/SGO); and Rebecca Moudry (consultant).

CONTENTS

EXECUTIVE SUMMARY

I.	BACKGROUND AND PROBLEM DEFINITION	1
A.	Regional characteristics	1
B.	Development policy and institutional framework	2
C.	Possibilities and challenges in the Arauco province.....	2
D.	Program rationale	3
II.	PROJECT OBJECTIVE AND DESCRIPTION.....	4
A.	Objectives.....	4
B.	Project description.....	4
	Component 1. Laying the groundwork for territorial management: institution building and governance.....	4
	Component 2. Collective company projects for productive development.....	5
	Component 3. Job skills and employability.....	6
	Component 4. Promotion of territorial collective goods	6
	Component 5. Monitoring and dissemination	6
III.	COST AND FINANCING	7
IV.	PROJECT EXECUTION.....	8
V.	MONITORING AND EVALUATION	9
VI.	PROJECT BENEFITS AND RISKS.....	10
VII.	ENVIRONMENTAL AND SOCIAL ISSUES	11

ANNEXES

Annex I	Logical framework
Annex II	Itemized budget

Proposed resolution

INFORMATION AVAILABLE IN THE MIF/OPS TECHNICAL FILES

Annex III	Operating Regulations
Annex IV	Procurement plan
Annex V	Risk analysis
Annex VI	Execution timetable
Annex VII	Milestone planning table

ABBREVIATIONS

CASEN	Encuesta de Caracterización Socioeconómica Nacional de Hogares [National Household Sample Survey of Socioeconomic Indicators]
ESR	Environmental and Social Impact Review
PRISM	Procurement Information System

**COMPETITIVE LOCAL DEVELOPMENT IN THE PROVINCE OF ARAUCO,
REGION OF BÍO BÍO
(CH-M1029)**

EXECUTIVE SUMMARY

Beneficiary/ Executing agency:	Chile - Corporación Industrial para el Desarrollo Regional del Bio Bío [Industrial Corporation for the Regional Development of Bío Bío] (CIDERE BIOBIO)	
Beneficiaries:	800 microenterprises and small businesses, the mayors and local authorities responsible for economic development in Arauco's seven municipalities, and the province community	
Financing:	MIF (nonreimbursable)	US\$ 990,000 ¹ (39%)
	Counterpart:	US\$1,570,000 (61%)
	Total:	US\$2,560,000
Objectives:	<p>The <i>general objective</i> of the project is to strengthen and develop entrepreneurship and productive innovation in the province of Arauco, based on a shared vision of the area's productive potential. The <i>specific objective</i> is to implement a public-private territorial management system that facilitates sustainable job creation and income generation, especially for low-income groups, by improving human capital and the competitive development of micro, small, and medium-sized enterprises (MSMEs).</p> <p>To this end, activities will be organized in five components: (i) laying the groundwork for territorial management: institution building and governance; (ii) collective company projects for productive development; (iii) job skills and employability; (iv) promotion of territorial collective goods; and (v) monitoring and dissemination.</p>	
Execution and Disbursement Periods:	48 months	

¹ The MIF contribution includes US\$25,000 for the activities of the MIF "Promoting local competitiveness" project cluster and US\$4,950 for the impact evaluation account.

**Special
contractual
clauses:**

As conditions precedent to the first disbursement, the following documentation must be submitted, to the Bank's satisfaction: (i) the project's overall execution plan and the annual work plan for year one; (ii) evidence of enforcement of the Operating Regulations; and (iii) evidence that the General Coordinator of the program has been selected.

**Environmental
and Social
Impact Review:**

This operation was reviewed on 7 July 2008 and the observations were incorporated (ESR 12-08). It was classified as a category "C" operation.

**Coordination
with other
donors:**

No other donors with similar projects were identified.

I. BACKGROUND AND PROBLEM DEFINITION

A. Regional characteristics

- 1.1 The province of Arauco is located in the southwestern part of the Bío Bío region, on the marine sedimentary plain bordered on the east by the Nahuelbuta mountain range and the west by the Pacific Ocean. Arauco is made up of the municipalities [*comunas*] of Arauco, Curanilahue, Los Álamos, Lebu, Cañete, Contulmo, and Tirúa, and has a population of 157,255 inhabitants and a surface area of 5,420.6 km². About 10% of the population is of Mapuche heritage. The municipalities are urban, except for Tirúa and Contulma, and an average of 43% of the province has a rural character (Arauco Territorial Development Plan, 2006). According to the 2006 Internal Revenue System records, the productive base consists of 5,031 companies, 98% of which are MSMEs.
- 1.2 Arauco is Chile's second poorest province and contains three of the region's ten poorest municipalities (Tirúa, Lebu, and Cañete). Unemployment in the territory is at 11.4%, surpassing the national and regional averages (CAsEN survey, 2003). The rates of perinatal and neonatal infant mortality in Arauco are the highest in the Bío Bío region.
- 1.3 Arauco is a **heavily forested province**; natural forests and crops cover 63% of its surface area, and crops alone cover 347,460 hectares or 20% of the Bío Bío region's wooded area. There are three forestry companies in the medium and large category, with more than 500 companies that supply various products and services and all together employ about 10,000 people¹. Notable among the large companies is Complejo Forestal e Industrial Arauco S.A., which owns and/or has on concession 60% of the province's forests².
- 1.4 The **agriculture sector** focuses on traditional ranching and agriculture, is structured around small units that mainly produce for internal consumption, and directly employs 9,360 people. The predominant crops are wheat and potatoes grown on unirrigated land. The province has strong potential to be declared free of diseases subject to quarantine and apt for potato seed production; in addition, it has been shown to be suitable for new products, like berries, honey, and bovine livestock, generally for the national market. The **fisheries sector** is based on 5,203 artisanal fisherman registered in different categories. As a sector, it is not very well organized and has been adversely affected by the changes caused by depletion of marine resources.
- 1.5 The **tourism sector is just beginning to be developed, but it has growth potential** and is based on Arauco's various natural attractions and the cultural aspects associated with the Mapuche ethnic group. There are 192 food and lodging

¹ Sector Data from the Arauco Provincial Office of Productive Development, 2007 Work Plan.

² Arauco S.A., has contributed, specifically by providing jobs, to an increased relative growth in the northern zone of the province with respect to the south, which depends more on public employment.

establishments, which employ about 500 people and increase their capacity during the summer season.

B. Development policy and institutional framework

- 1.6 The **productive context of the province has historically been highly complex**. In the nineties, the economy was gravely affected by the shutting-down of the coal mines and the sharp decrease in marine resources (due in part to overexploitation). The critical state of employment is reflected in the high incidence of unemployment subsidies, which, having been instituted some time ago, may have played a role in causing the lack of business dynamism, innovation, and human capital development. The government's policies and strategies for restructuring production and job retraining, applied for more than 10 years in the area, have not achieved their expected impact. The idea is widespread that the job and business venture generation programs have not adequately fulfilled expectations. The current government is promoting an investment program, "Plan Territorio Arauco 2007-2010 [Arauco Territory Plan 2007-2010]," for investments in infrastructure and equipment, which will lead to improvements in connectivity, communication, roads, and access to basic services³. Local leaders feel the plan is incomplete due to the lack of attention given to the productive development component.
- 1.7 The province's institutional framework is weak and its entities are not well-coordinated. Despite the municipalities' lack of strength and effectiveness, the seven mayors have formed the **Asociación Provincial de Municipios-Arauco 7** [Provincial Association of Municipalities-Arauco 7] to develop projects with regional impacts. Although heretofore it has not been very active, the association is an important base for coordination and a potential sphere from which to manage the area's development. The **private sector** is also characterized by a lack of leadership and coordination. The few large companies that exist have not generated new investments in the province nor have they organized their suppliers. Five sector committees - tourism, fisheries, potatoes and cheese, beekeeping, and bovine meat - have been established, but they are very weak and have little presence in the public sector, except for the tourism committee, which is supported by Chile Emprende, a local development program of the Servicio de Cooperación Técnica [Technical Cooperation Service] (SERCOTEC).

C. Possibilities and challenges in the Arauco province

- 1.8 The Arauco province has various **competitive advantages**. Firstly, due to its agroecological and climactic characteristics, it is a very fertile area, and in addition to being free of diseases subject to quarantine, it has competitive advantages for various crops and ranching. The area's natural beauty and the presence of the

³ Under the Plan, a total of CH\$360 billion (approximately US\$794 million) will be invested for the 2007-2010 period, <http://www.subdere.cl/1510/article-71806.html>.

Mapuche culture give it a high tourism potential, and the government has planned to heavily invest in infrastructure over the next few years.

1.9 On the other hand, the province has **notable problems and limitations** that hinder the reorientation of its development and the take-off of its economy, as explained below:

- a. Despite the **forestry industry's relevance, the idea exists that it is not a factor in the region's endogenous development**. Forestry in Arauco has not formed linkages; rather, it generates generally low-skilled, precarious, seasonal, and sporadic employment. The sector's companies are not perceived to have the level of social business responsibility necessary for promoting the development of opportunities in the province. Lastly, due to the difficulty in obtaining wood locally, there is no cluster of products from the wood industry with a high value-added. In Arauco, there are **environmental problems associated** with the decrease in land fauna due to the destruction of the native forest, erosion, and ground depression. The large forestry company has exacerbated these problems, even though recently it has been promoting local development and environmental improvement.
- b. The **lack of high-quality human capital** results in a poor disposition towards innovation and entrepreneurial activities; the crisis in Arauco's historical economic bases—mining and fishing—has marginalized much of the poorly educated labor force, which has trouble adapting to new productive activities; also, the youngest generations tend to emigrate and only in some exceptional cases do they return to work in the family business.
- c. The **lack of networks and linkages** undercuts the development potential of small companies that do not have access to business services and do not take advantage of opportunities that emerge, including the opportunity to supply large companies.
- d. The province does not have a defined **identity nor image**. Rather, it is only known for its poverty, lack of opportunity, and even for being a “**troubled area**,” due to social problems caused by the lack of participation in development processes by Mapuches and those forced out of the coal sector. This negative image results in disillusionment and depression.

D. Program rationale

- 1.10 The government proposes establishing an economic growth and structural change process in the Arauco province, targeting sectors that will produce real and growing linkages, like the tourism, meat (bovine), berry, and honey sectors, among others. Unlike previous initiatives, this effort will promote endogenous development managed by local public and private actors.
- 1.11 This requires increasing the capacities of local stakeholders, including modernizing municipalities and strengthening business capacities. In addition, forming networks and creating confidence will reinforce a public-private management entity that has

the active participation of the private business sector - both large companies and local MSMEs - and the municipalities, and will be the base for managing the territorial development process. The importance of increasing local stakeholder participation in making productive development decisions was demonstrated at a February workshop held by the Office of the Deputy Secretary for Regional and Administrative Development (SUBDERE) and the MIF in Lebu⁴.

- 1.12 The MIF presence will facilitate the implementation of these new efforts to establish a growth process, in particular, by strengthening the private sector, institutions, and companies, promoting more effective collaboration between the public and private sectors, establishing reliable foundations through a coordinated, coherent effort to build human capital in the province, and overcoming the cycles of poverty and dependence. The project is part of the MIF “Promoting local competitiveness” project cluster, and is innovative for the MIF in that it is being implemented in an area where various initiatives to overcome the mining industry crisis have been unsuccessful in establishing a sustainable development process.

II. PROJECT OBJECTIVE AND DESCRIPTION

A. Objectives

- 2.1 The *general objective* of the project is to strengthen and develop entrepreneurship and productive innovation in the Arauco province, based on a shared vision of the area’s productive potential. The *specific objective* is to implement a public-private territorial management system that facilitates sustainable job creation and income generation, especially for low-income groups, by improving human capital and the competitive development of micro, small, and medium-sized enterprises (MSMEs).

B. Project description

Component 1. Laying the groundwork for territorial management: institution building and governance (MIF US\$138,000; Counterpart US\$427,250)

- 2.2 The objective of this component is to lay the groundwork for promoting local competitiveness, by strengthening the province’s institutions and relevant entities, including training municipal authorities in local economic development and employment. Work will be focused on three main areas:
- a. **Establishing a shared vision of project development, planning, and promotion** by identifying the province’s competitive advantages, a process initiated during the operation’s preparatory phase. For this, the following will

⁴ The workshop, held on 26 and 27 February 2008, was supported by the regional government, provincial government, association of the seven municipalities-Arauco 7, the sector committees and other entrepreneurs, and a representative of the Arauco company. It served to collectively identify the priorities for territorial economic development among entrepreneurs, municipal authorities, and development services.

be supported: (i) establishing a shared vision of productive development and redefining the strategic objectives; (ii) developing the Public-Private Council's annual work plan; and (iii) promoting the project through a launch event, publicity materials, a web site, and a communication plan.

- b. **Strengthening territorial governance and the Public-Private Council**, which will act as the project's Board of Directors, by: (i) providing training in local development and territorial development management, especially for the members of the Public-Private Council; (ii) training municipal staff to better manage productive development initiatives for MSMEs, and including the Mapuche communities in this training; (iii) providing training in leadership and governance to the leaders of the main entities; (iv) visits to local sites that have participated in development efforts; and (v) mentoring, by which a successful project will oversee the implementation and monitoring of the Arauco project through an institutional agreement or the hiring of consulting services.
- c. **Network building and collective actions**, including activities to promote public-private partnership-building and networks for private sector collective actions. In particular, the following activities will be carried out: (i) analysis and presentation of best indigenous inclusion practices; (ii) support for developing two knowledge platforms on subjects chosen by the Public-Private Council, such as the environment, renewable energy, certification, and exports, so that by project end technical networks for innovative companies will be in place; (iii) strengthening public-private committees; (iv) forming groups of companies, building confidence, and supporting collective actions and a plan for their implementation; and (v) establishing a group of companies in the Mapuche communities by applying appropriate methodologies.

Component 2. Collective company projects for productive development (MIF US\$186,000; Counterpart US\$366,000)

- 2.3 The objective of this component is to support MSMEs in incorporating innovations to increase their productivity, competitiveness, and environmental sustainability. The project will help incorporate innovations in products, processes, marketing, and organization, and will help implement new business initiatives aimed at protecting the environment, renewable energy, non-traditional crops, and organic production. Through technical assistance that supplements the existing tools for promoting innovation, the project will support product development and the identification of new technologies. Each initiative is eligible to receive financing of up to US\$35,000 (with an average of US\$25,000 per initiative), corresponding to between 50% and 70% of its total value. No more than 15% can be allocated to purchasing fixed assets. Five percent of each initiative's resources will be earmarked for evaluating outcomes.
- 2.4 Applications will be accepted on a rolling basis. To be eligible, initiatives must: (i) be carried out in the province of Arauco; (ii) have been proposed collectively by

at least 3 entities, small businesses, or institutions, with preference given to initiatives that involve more companies; (iii) demonstrate the existence of local counterpart funds; and (iv) have a positive or neutral environmental impact. Proposals will be prioritized based on their strategic importance for the territory, their potential impact on larger groups of companies in a second phase, and their capacity to disseminate outcomes. This component will finance: (i) preparation of application documents and fine-tuning of eligibility criteria and the selection process; (ii) promotion of the instrument; (iii) technical evaluation of the proposals; and (iv) financing and implementation of the proposals.

Component 3. Job skills and employability (MIF US\$81,250; Counterpart US\$180,250)

- 2.5 The objective of this component is to improve human capital (young people and adults) in terms of skills, employability, and business capacity, thus preparing the labor force for new and existing opportunities. The following activities are envisaged: (i) an analysis of the labor market, especially industries' needs and job vacancies; (ii) development of skill profiles in accordance with the province's competitive potential; (iii) implementation of an agreement with higher education institutions to offer basic and technical specialization courses for adults and students in their last year of secondary school; (iv) job skill certification; (v) training Mapuche entrepreneurs in various aspects of management; and (vi) dissemination of practices to increase innovation through courses and workshops for MSMEs.

Component 4. Promotion of territorial collective goods (MIF US\$200,000; Counterpart US\$120,000)

- 2.6 The objective of this component is to support agreed-upon initiatives that can improve the province's competitiveness factors. In particular, six initiatives chosen by the project's Public-Private Council will be supported. The support will be in the amount of up to 50% of the initiative's budget but must not surpass the limit of US\$50,000 per initiative. Initiatives must be proposed by groups of at least three entities (public and private) and will be chosen based on their impact potential and replicability. The Public-Private Council will fine tune the eligibility criteria and the selection process, as defined in the Operating Regulations. The component's activities will include: (i) preparing documents and promoting the facility; (ii) supporting initiatives of particular interest; and (iii) financing the chosen initiatives.

Component 5. Monitoring and dissemination (MIF US\$125,000; Counterpart US\$20,000)

- 2.7 The objective of this component is to monitor the project to facilitate its management and the dissemination of results achieved. The following activities will be carried out to attain this objective: (i) development of a project monitoring system (to include indicator definition, baseline, and system implementation); (ii) system maintenance; (iii) activities to disseminate the experience (event,

documentation of successful cases/best practices) and (iv) training and participation in international events.

- 2.8 **Expected project results.** The project is expected to: (i) support at least 800 microenterprises or small businesses, in terms of business and job training and support for innovation and increased business cooperation; (ii) create opportunities for productive linkages; (iii) support 20 innovative initiatives from groups of companies, of which 5 will be initiatives from companies in the Mapuche community; (iv) train 400 workers in trades and/or the skills necessary for promoting development in the Arauco province; (v) train 100 public stakeholders in economic development, MSME promotion, leadership, and governance; and (vi) bring about increased efficiency in the municipalities' dealings with companies.

III. COST AND FINANCING

- 3.1 The project cost is US\$2,560,000, of which the MIF will contribute up to US\$990,000 (39%, nonreimbursable), while the executing agency is committed to contributing US\$1,570,000 (61%), pursuant to the budget (Annex II).⁵

Expense categories	MIF	Counterpart	Total	%
C. I. Laying the groundwork for territorial management: institution building and governance	138,000	427,250	565,250	22.3%
C. II. Collective company projects for productive development	186,000	366,000	552,000	21.8%
C. III. Job skills and employability	81,250	180,250	261,500	10.3%
C. IV. Promotion of territorial collective goods	200,000	120,000	320,000	12.6%
C.V. Monitoring and dissemination	125,000	20,000	145,000	5.7%
Project coordination	127,000	451,105	578,105	22.8%
Midterm and final evaluations	30,000	-	30,000	1.2%
Annual audits	20,000	-	20,000	0.8%
Contingencies	52,800	5,395	58,195	2.3%
Subtotal	960,050	1,570,000	2,530,050	100%
Impact Evaluation Account	4,950	-	4,950	
Activities of the "Promoting local competitiveness" project cluster	25,000	-	25,000	
Total	990,000	1,570,000	2,560,000	

- 3.2 **Project sustainability** is based on the importance the community gives to locally establishing guidelines for development of the Arauco province, the improved expectations that could result from this, and strengthening local public and private entities, as well as their collective working practices, through the project. If the

⁵ The counterpart funding will be contributed directly by the local counterpart and the development agencies (CORFO, INNOVA, and SUBDERE), which have made a commitment in letters of intent.

experience is positive, it will continue to be overseen by governmental bodies and eventually it will be transferred to other areas.

IV. PROJECT EXECUTION

- 4.1 **Executing agency.** The project will be executed by the Corporación Industrial para el Desarrollo Regional del Bio Bío [Industrial Corporation for the Regional Development of Bío Bío] (CIDERE BIOBIO), an institution guided by the criteria of social business responsibility. The large industrial, financial and service entities participate in the Corporation, as does the regional academic sector. The Corporation has 42 years of experience in supporting the establishment of microenterprises, training in trades, and technological development and adaptation.
- 4.2 **Organization of project execution.** The General Manager of CIDERE BIOBIO will direct the project, and on a part-time basis will act as General Manager of the project and will be the project representative to the IDB/MIF and other organizations and institutions. The General Manager will answer to the Project Directing Council and will be responsible for project execution. He will be supported by the **General Coordinator** and the **Technical Assistant**.
- 4.3 A **Public-Private Council** and a **Directing Council** will be established. Their members will serve at no cost to the project. The **Public-Private Council** will be made up of five business representatives, including one from the large company, a representative from learned society, a representative of the Mapuche communities (currently being identified), and seven representatives of local public entities. It will meet at least twice a year and will be responsible for: (i) studying and validating the project strategy; (ii) making sure the project is compatible with the regional development strategy; (iii) facilitating coordination of the existing development instruments; and (iv) periodically evaluating the program's progress. The **Directing Council**⁶ will meet at least once per month or as needed, and will be responsible for: (i) defining the project strategy; (ii) approving the plan of activities, budget, and annual balance; (iii) providing technical advice regarding project execution; (iv) supervising the work plan's progress and outcomes, and proposing corrective measures as necessary; and (v) helping solve problems that could hinder project execution.
- 4.4 **Disbursements by results.** Under the modality of project management based on risk and performance, resources will be disbursed through the advance of funds procedure (revolving fund for 15% of the MIF contribution) and replenishment will be contingent upon the achievement of key indicators (milestones) determined and agreed upon by the executing agency and the MIF during the annual work plan

⁶ This Council is currently made up of the director of the Arauco Provincial Agency, the director of the Regional Agency for Innovation and Productive Development, the president of the Ranching Committee, a representative of the Arauco company, the president of the Tourism Committee, a representative of the Provincial Association of Municipalities and representatives of the Mapuche community.

approval process. Achievement of milestones does not exempt the executing agency from the responsibility to reach the project's objectives. The first advance of funds to the executing agency will be subject to the conditions established in the executive summary. The counterpart will be responsible for expenses of up to US\$40,000, starting from the project eligibility date (28 May) in order to finance the process of setting up and training the project management bodies, and to cover other project-startup-related expenses.

- 4.5 Procurement and contracts. The executing agency will procure the goods and services and hire the consulting services envisaged in the project, in accordance with Bank policies (documents GN-2349-7 and GN-2350-7), MIF guidelines, and the procurement plan, summarized as follows: (i) for any procurement of goods worth US\$30,000 or less, the "price shopping" method will be used, in which case, the Bank must not object to the technical characteristics of the goods to be procured; (ii) for consultancies whose estimated cost is less than US\$100,000 or equivalent, the consultant shortlist can be made up of national consultants; (iii) hiring or procurements costing the equivalent of US\$5,000 or less will be credited against invoices, with no requirement to make a contract and register it in the PRISM; and (iv) all contracts for procuring goods and services or hiring consultancy services with a total value of over US\$50,000 will be revised ex ante; even so, baseline and monitoring contracts, and contracts for the coordinator, the assistant, and anyone else the Bank considers critical will be revised ex ante by the Bank.

V. MONITORING AND EVALUATION

- 5.1 **Project status reports.** The executing agency will be responsible for presenting Project Status Reports (PSRs) to the MIF within thirty (30) days after the end of each six month period. These reports will follow a format previously agreed upon with the MIF and will contain information on project execution, achievement of milestones, results obtained, and their contribution to completion of project objectives as stated in the logical framework and other operative planning instruments. The PSR will also describe project issues encountered during execution and outline possible solutions. Within 90 days after the end of the execution term, the executing agency will submit a final PSR to the MIF, which will highlight results achieved, project sustainability, and lessons learned.
- 5.2 **Financial Supervision.** The executing agency will establish and assume responsibility for keeping adequate financial accounts, internal control mechanisms, and filing systems for the project, which shall be consistent with the IDB/MIF accounting and auditing rules and policies. The IDB will contract independent auditors to perform the audit of financial statements prepared annually by the executing agency. Application and frequency of these reviews can be modified by the MIF based on the results of reviews and/or subsequent risk analyses performed by the MIF during project execution.

- 5.3 **Evaluation.** Two evaluations will be performed by independent consultants selected and contracted by the Bank and to be paid for by the operation. The midterm evaluation will be performed once at least 50% of the MIF resources have been disbursed, or after 24 months of execution, whichever occurs first; and the final evaluation, 90 days before the end of the execution period. The **midterm evaluation** will consider, among other aspects: (i) the degree to which the Public-Private Council is developed and operating; (ii) the participation of small businesses and Mapuche companies in collective projects (component 2); (iii) interinstitutional and intermunicipal collaboration; (iv) the degree to which planned activities have been achieved and the evolution of the logical framework indicators; (v) the achievement of *pari passu* in accordance with the budget; and (vi) the efficacy of completed actions and beneficiary satisfaction. The **final evaluation** will include an analysis of results achieved in comparison with the initial baseline. At a minimum, the following will be evaluated: (i) the strength and sustainability of the territorial governance system; (ii) the incorporation of new technologies, products, and services by the companies that have participated in the project's activities; (iii) the impact of implemented actions, especially those aimed at forming and strengthening public-private groups to support territorial collective goods and collective municipal actions, incorporating companies into business networks, the inclusion of Mapuche companies, and developing job skills and employability; (iv) the project experiences that resulted in benefits for the entire province; and (v) lessons from execution.

VI. PROJECT BENEFITS AND RISKS

- 6.1 **Benefits.** The project will directly benefit 800 microenterprises and small businesses, in terms of business and job training and support for innovation. It will also benefit the Mapuche community, specifically by promoting business training and the formation of groups of companies to prepare and present innovation projects. Lastly, it will benefit the province's population, specifically by promoting the creation of jobs with greater value-added (new companies, development of linkages), by improving the province's competitiveness factors, including promoting its image, and especially, by developing the local entities' capacity to manage the province's development processes, including reinforcing the municipalities' work.
- 6.2 **Risks.** The main risks facing this operation are: (i) the entities in the Public-Private Council do not effectively connect locally; and (ii) the companies' reduced scale and the lack of experience in implementing projects prevents enough group projects from being established so as to receive support. To reduce these risks the project plans a series of specific direct technical assistance and training activities aimed at creating confidence and promoting connections between public and private entities (particularly in component 1). The second risk is also mitigated by the support given to forming groups of companies and preparing an action plan, which includes support for developing projects to be presented, if necessary.

VII. ENVIRONMENTAL AND SOCIAL ISSUES

- 7.1 In all of its components the project will take into account the environmental sustainability and social inclusion dimensions. It will also take precautions against and try to prevent the possible environmental and cultural impacts associated with implementation (paragraph 2.4). When possible, the project will prioritize the dissemination of good practices in clean production and environmental management, understood to be key factors in the sustainable development of the Arauco province. It will not finance forestry production activities in native primeval forests. The executing agency will establish appropriate mitigation measures for agroindustrial product processing, which generates liquid and solid waste. Funds from the contribution should be used in accordance with the Bank's policies on indigenous peoples and the environment, and the MIF's environmental guides.⁷
- 7.2 Although the project is focused on overall territorial development and not directly on solving the region's social and environmental problems, it will generate sustainable opportunities for income generation that will be an alternative to today's activities (mining and overfishing) that degrade the environment. The project is classified as a "C" operation.

⁷ Policies OP-703 and OP-765, respectively. The MIF guides can be found at http://www.iadb.org/mif/envi_socguidelines1.cfm?language=Spanish

COMPETITIVE LOCAL DEVELOPMENT IN THE PROVINCE OF ARAUCO, REGION OF Bío-Bío (CH-M1029)
LOGICAL FRAMEWORK

Objectives	Indicators	Means of verification	Assumptions
Goal			
To strengthen and develop entrepreneurship and productive innovation in the province of Arauco, based on a shared vision of the area's productive potential.	<p>Two years after project end:</p> <ul style="list-style-type: none"> - Public-Private Council operating, focused on territorial economic development, and working under a shared vision (a strategy agreed upon by the Council). - Of the 20 collective projects that were supported, five are highly innovative (they generated or improved products, services, or internal processes in the beneficiary MSMEs). - Arauco's large companies have increased the number of their local suppliers that are MSMEs (direct and indirect) by 15% with respect to the baseline. - 2% increase in the number of new MSMEs (net). - 15% increase in the number of formalized MSMEs (net). 	<ul style="list-style-type: none"> - Ex post evaluation¹ - National statistics and Internal Revenue Service records - Development instrument records - Baseline 	<ul style="list-style-type: none"> - The beneficiary country and province remain economically and politically stable. - The municipalities and the main institutions continue to support the vision of territorial development.
Purpose			
To implement a public-private territorial management system that allows for sustainable job creation and income generation, especially for low-income groups, by improving human capital and the competitive development of micro, small, and medium-sized enterprises (MSMEs).	<p>By project end:</p> <ul style="list-style-type: none"> - 4 municipalities have implemented projects to improve their management of local entrepreneurship. - 10% increase in the number of new Mapuche companies. - 15% increase in the number of MSMEs in business networks, collective actions, value chains, and productive linkages. - 10 Mapuche entrepreneurs incorporated into business networks (collective actions, value chains, productive linkages). - 4 public-private and/or public-public strategic partnerships established. 	<ul style="list-style-type: none"> - Midterm and final evaluations - Project Status Report - National statistics and Internal Revenue Service records - Baseline - Strategic partnership agreements 	<ul style="list-style-type: none"> - Public program financing lines for territorial development and human capital will be maintained and increase. - There is unmet demand, not satisfied by the public and academic sectors, for programs related to management, capacity, human capital, and innovation, among other topics. - Public and private stakeholders agree on the shared vision of

¹ During project execution, the MIF (with another entity) will study the possibility of using funds from the MIF Impact Evaluation System to perform the evaluation.

Objectives	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> - 20% of participants in the employability course/program (certified and non-certified) have obtained formal work. - 15% of participants in the employability course/program for Mapuches have obtained formal work. 		<p>territorial development and intend to work conjointly for the province's welfare.</p> <ul style="list-style-type: none"> - The province's productive potential continues to exist.
Components			
I. Laying the groundwork for territorial management: institution building and governance	<p>After 18 months:</p> <ul style="list-style-type: none"> - The Public-Private Council has become highly committed (on average, 80% of members, at a minimum, attend 100% of meetings). - Entrepreneurs are highly committed and collaborate (30% increase in regular participation at productive/public-private committees). - At least 15 networks of companies have been formed. - The project is being mentored. <p>After 36 months:</p> <ul style="list-style-type: none"> - 2 partnerships in place with universities, research centers, etc. for knowledge development and management regarding issues prioritized by the Public-Private Council. - The 7 municipalities have prepared an action plan to improve management in the productive sphere. - 15 additional networks of companies established. <p>By project end:</p> <ul style="list-style-type: none"> - 5 of the 20 networks of companies, including Mapuche companies, remain in place. - Municipalities interact appropriately with the companies. - 3 joint actions between municipalities. 	<ul style="list-style-type: none"> - Public-Private Council minutes - Midterm and final evaluations - Project Status Report - Baseline - Partnership collaboration agreements - Sector committee meetings - Collective action plans - Municipal action plans - Number of entrepreneurs served by the municipalities 	<ul style="list-style-type: none"> - The groups of companies are willing to build partnerships. - The municipalities and municipal staff participate in collective activities and remain willing to work together for the productive development of the region.

Objectives	Indicators	Means of verification	Assumptions
II. Collective company projects for productive development	<p>After 24 months:</p> <ul style="list-style-type: none"> - 8 collective company projects implemented. - 24 companies participating in the projects. - 20 projects have been presented to development instruments, principally the Corporación de Fomento de la Producción [Chilean Development Corporation] (CORFO) (PEL, FOCAL, FAT, PROFOS, PDP, etc.). <p>After 36 months:</p> <ul style="list-style-type: none"> - 12 additional projects. <p>By project end:</p> <ul style="list-style-type: none"> - 10 additional productive projects implemented, and 30 accumulated. - Of the 30 projects, 5 have been implemented in innovative areas like the environment, renewable energy, organic production, etc. - 60 companies have participated in collective projects. - 15 Mapuche companies have participated in collective projects. - Sales (\$) in productive project beneficiary companies have increased by 10% on average. 	<ul style="list-style-type: none"> - Midterm and final evaluations - Project Status Report - Quality manual - Diagnostic of breaches in quality 	<ul style="list-style-type: none"> - Entrepreneurs have sufficient capacity to execute projects. - Development instruments are suited to the needs of entrepreneurs in the Arauco province.
III. Job skills and employability	<p>By 24 months after project start:</p> <ul style="list-style-type: none"> - 30 new trade, technical degree, and/or student certifications. - 100 entrepreneurs and workers trained in basic and technical management in priority areas. <p>By 36 months after project start:</p> <ul style="list-style-type: none"> - 5 skill profiles developed and presented to the relevant entities (Instituto Nacional de Normalización [National Standards Institute] (INN)). - Job skill certification mechanism designed and documented. 	<ul style="list-style-type: none"> - Midterm and final evaluations - Project Status Report - Sample survey - Certification manual - Diagnostic of skill gaps 	<ul style="list-style-type: none"> - A technical training center is established in Arauco during the first year of the project. - The methodology for increasing innovation developed by Integrated Research and Action for Development (IRADE) is available. - Relevant certification entities and profiles exist.

Objectives	Indicators	Means of verification	Assumptions
	<p>By project end:</p> <ul style="list-style-type: none"> - 70 additional trade, technical degree, and/or student certifications. 		
IV. Promotion of territorial collective goods	<p>After 12 months:</p> <ul style="list-style-type: none"> - 2-4 projects presented. <p>After 24 months:</p> <ul style="list-style-type: none"> - 6-12 additional projects presented. <p>After 36 months:</p> <ul style="list-style-type: none"> - 6 projects approved and started. <p>By project end:</p> <ul style="list-style-type: none"> - 50% of approved projects have been fully implemented and have achieved their objectives. 	<ul style="list-style-type: none"> - Midterm and final evaluations - Project Status Report - Action plans of projects with milestones - Project monitoring system 	<ul style="list-style-type: none"> - Local entities have a shared vision of productive development and management priorities. - The public, private, and academic sectors, and other partners, are willing to collaborate.
V. Project monitoring and dissemination	<p>After 6 months:</p> <ul style="list-style-type: none"> - Baseline developed. - Monitoring system implemented. <p>After 24 months:</p> <ul style="list-style-type: none"> - Monitoring system updated with a maximum lag of 60 days. - 4 press releases per year dedicated to the project. <p>By project end:</p> <ul style="list-style-type: none"> - 4 successful cases disseminated. - Project mentioned 8 times in the media over the last year. 	<ul style="list-style-type: none"> - Midterm and final evaluations - Project Status Report - Monitoring system 	

Objectives	Indicators	Means of verification	Assumptions
Activities			
I.1.1. Session to establish the shared vision of productive development	After 2 months: - Vision established and approved by the Expanded Council.	- Report	- Public-Private Council is committed and participates.
I.1.2 Annual work plan of the council	After 3 months (and 12, 24, 26 months): - Work plan, including milestones, approved by the Expanded Council.	- Project Status Report	- Public-Private Council is committed and participates.
I.1.3 Project promotion	After 6 months: - Web site operating with updated information. - Launch event held with 100 attendees. - Communication plan formulated.	- Project Status Report	
I.2.1 Organize and execute mentoring	After 12 months: - A successful project identified and mentoring relationship established. After 24 months: - 3 total visits made (both directions). - At least 3 procedures and good practices from the chosen project identified and their implementation started. By project end: - Operation of the 3 initiatives evaluated.	- Project Status Report	
I.2.2 Cycle of dissemination of best practices in territorial governance and productive development	After 12 months: - Best practices to visit identified and contacts formalized. After 36 months: - Three visits made and evaluated, and two cases selected for implementation.	- Project Status Report	- Municipalities are willing to build partnerships, and are committed to improving territorial governance of productive development.

Objectives	Indicators	Means of verification	Assumptions
	By project end: - Operation and implementation of best practices started in two cases.		
I.2.3 Training workshop on local development and territorial development management	After 10 months: - Plan designed for training relevant stakeholders. After 18 months: - 50 relevant stakeholders trained in productive development.	- Project Status Report	
I.2.4 Training in municipalities' functions	After 10 months: - Plan designed for training municipal staff and professionals. After 18 months: - 25 municipal staff members trained in functions related to economic and MSME development.	- Project Status Report	- Municipal staff participates.
I.2.5 Leadership and governance program	After 10 months: - Program designed. After 18 months: - 21 local public and private stakeholders trained in leadership and governance. After 30 months: - 70% of trained stakeholders have participated in supplementary training to develop social skills and participation techniques.	- Project Status Report	
I.3.1 Knowledge platform	After 18 months: - 2 subjects identified by the Public-Private Council and action plans formulated. After 24 months - Studies initiated. - The Public-Private Council working with two universities or research institutions to develop the knowledge platforms.	- Project Status Report	- The relevant stakeholders have coordinated and participate.

Objectives	Indicators	Means of verification	Assumptions
	After 36 months: - Studies finalized and documented. - Dissemination through at least 3 workshops.		
I.3.2 Strengthening public-private committees	After 24 months: - Number of participants in committees that receive technical assistance up 50%. By project end: - Committees that receive technical assistance have started operating 4 new projects.	- Project Status Report.	- The groups of companies are willing to build partnerships.
I.3.3 Best indigenous inclusion practices in territorial development	After 12 months: - A Mapuche included in the Public-Private Council. After 18 months: - 25 stakeholders trained in the inclusion of Mapuches in territorial development.	- Project Status Report	- The Mapuche community participates in territorial development activities.
I.3.4 Organizing collective actions among companies	After 18 months: - 10 potential groups formed to present projects (at least one per municipality). After 36 months: - 20 potential groups formed to present projects.	- Project Status Report	- Entrepreneurs have sufficient capacity to execute projects. - The groups of companies are willing to build partnerships.
I.3.5 Organizing collective actions among Mapuche companies	After 18 months: - 5 potential groups formed to present projects. After 36 months: - 10 potential groups formed to present projects.	- Project Status Report.	- Entrepreneurs have sufficient capacity to execute projects. - Mapuche entrepreneurs participate in territorial development activities.
II.1 Laying the groundwork and application criteria	After 3 months: - Program criteria established.	- Project Status Report.	

Objectives	Indicators	Means of verification	Assumptions
II.2 Dissemination of financing opportunities	<p>During Year 1:</p> <ul style="list-style-type: none"> - 2 workshops organized with CORFO and INNOVA. <p>During Year 2:</p> <ul style="list-style-type: none"> - 4 workshops organized with CORFO and INNOVA. <p>By project end:</p> <ul style="list-style-type: none"> - Financing and productive development opportunities disseminated to at least 80% of the target population. 	<ul style="list-style-type: none"> - Project Status Report. 	<ul style="list-style-type: none"> - There is coordination among relevant stakeholders.
II.3 Technical evaluation of project proposals	<p>After 12 months:</p> <ul style="list-style-type: none"> - Emerging sectors that will support the project identified. <p>After 18 months:</p> <ul style="list-style-type: none"> - 20 projects presented and 8 selected. <p>After 36 months:</p> <ul style="list-style-type: none"> - 40 additional projects identified and presented and 12 selected. 	<ul style="list-style-type: none"> - Project Status Report 	
II.4 Financing of collective company projects for productive development	<p>After 24 months:</p> <ul style="list-style-type: none"> - 6 groups of companies initiating collective projects. - 2 groups of Mapuche companies initiating collective projects. <p>After 36 months:</p> <ul style="list-style-type: none"> - 80% of approved projects are being executed. - Projects being monitored and funds available for evaluations. <p>By project end:</p> <ul style="list-style-type: none"> - 15 collective company projects up and running. - 5 groups of Mapuche companies initiating collective projects. - 5 collective company projects in priority areas. - Executed projects evaluated. 	<ul style="list-style-type: none"> - Project Status Report. 	<ul style="list-style-type: none"> - Entrepreneurs have sufficient capacity to execute projects. - The groups of companies are willing to build partnerships. - Mapuche entrepreneurs participate in territorial development activities.

Objectives	Indicators	Means of verification	Assumptions
III.1 Labor market analysis	After 12 months: - Labor market analysis and diagnostic completed.	- Project Status Report. - Labor market diagnostic documented.	
III.2 Establishing skill profiles	After 18 months: - Database set up of job profiles that are required according to labor market analysis. After 30 months: - 5 profiles finalized and presented to the appropriate entities.	- Project Status Report.	
III.3 Partnership with higher education institution(s) for technical training	After 14 months: - 5 basic management courses, 7 specialized technical training courses, and trades to be developed identified. After 18 months: - Module design completed. By project end: - 300 workers trained and certifiable, with a focus on young workers (19 to 25 years old).	- Project Status Report.	- A technical training center is established in Arauco during the first year of the project.
III.4 Certification	After 12 months: - Relevant certifying bodies identified and partnerships formalized. After 36 months: - Certification mechanisms implemented.	- Project Status Report.	- Relevant certification entities exist.
III.5 Business training for Mapuches	After 36 months: - 20 Mapuche entrepreneurs trained.	- Project Status Report.	
III.6 Cycle of instituting practices to increase innovation and improve productivity	After 26 months: - Analysis of IRADE methodology replicability. After 30 months: - Methodology applied in 5 groups of companies.	- Project Status Report.	- The methodology developed by IRADE for increasing innovation is available.

Objectives	Indicators	Means of verification	Assumptions
IV.1 Promotion of territorial collective goods	<p>After 6 months:</p> <ul style="list-style-type: none"> - A list of priorities prepared by the Public-Private Council in accordance with the shared vision. <p>After 12 months:</p> <ul style="list-style-type: none"> - First call-for-projects completed and projects selected. <p>By project end:</p> <ul style="list-style-type: none"> - 3 projects fully implemented and results evaluated. 	<ul style="list-style-type: none"> - Project Status Report. 	<ul style="list-style-type: none"> - The Public-Private Council is committed and participating. - The public sector, private sector, and institutions collaborate.
V.1 Establishing baseline and monitoring system	<p>After 6 months:</p> <ul style="list-style-type: none"> - Baseline developed. - Monitoring system implemented. <p>After 24 months:</p> <ul style="list-style-type: none"> - Monitoring system updated every 90 days. - Midterm evaluation completed. 	<ul style="list-style-type: none"> - Midterm evaluation report. - Final evaluation report. 	
V.2 Maintenance and measurement of performance indicators	<p>At start (base zero) and at least quarterly:</p> <ul style="list-style-type: none"> - Report on performance indicators. 	<ul style="list-style-type: none"> - Project Status Report. 	
V.3 Dissemination of results	<p>By project end:</p> <ul style="list-style-type: none"> - Dissemination of results on the web site. - 5 articles on project results and activities every year. - Closing event held. - Final project report generated to compare results and share successful cases/best practices. - Final evaluation completed. 	<ul style="list-style-type: none"> - Final evaluation report. 	

**COMPETITIVE LOCAL DEVELOPMENT IN THE PROVINCE OF ARAUCO, REGION OF Bío-Bío
(CH-M1029)
ITEMIZED BUDGET**

Budget categories		MIF	Local contribution	total	%
I. Laying the groundwork for territorial management: institution building and governance					
1.1	Establishing a shared vision and strengthening the Council	10,000	56,700	66,700	2.6%
1.1.1	Session to establish the shared vision of productive development (after Plan validation)	5,000	4,000	9,000	0.4%
1.1.2	Annual work plan of the Council	5,000	4,700	9,700	0.4%
1.1.3	Project promotion		48,000	48,000	1.9%
1.2	Strengthening territorial governance and municipal stakeholders	9,000	186,250	195,250	7.7%
1.2.1	Organizing and executing mentoring		41,100	41,100	1.6%
1.2.2	Cycle of disseminating best practices in territorial governance and productive development		62,850	62,850	2.5%
1.2.3	Training workshops on local development and territorial development management	9,000	16,400	25,400	1.0%
1.2.4	Training in the municipalities' functions		26,300	26,300	1.0%
1.2.5	Leadership and governance program		39,600	39,600	1.6%
1.3	Network formation and collective actions	119,000	184,300	303,300	12.0 %
1.3.1	Knowledge platform		68,500	68,500	2.7%
1.3.2	Strengthening public-private committees		12,000	12,000	0.5%
1.3.3	Best practices of indigenous inclusion in territorial management		33,800	33,800	1.3%
1.3.4	Organizing collective actions among companies	70,000	35,000	105,000	4.2%
1.3.5	Organizing collective actions among Mapuche companies	49,000	35,000	84,000	3.3%
	Subtotal	138,000	427,250	565,250	22.3%
II. Collective company projects for productive development					
2.1	Laying the groundwork and application criteria	8,000	8,000	16,000	0.6%
2.2	Dissemination of financing opportunities	8,000	8,000	16,000	0.6%
2.3	Evaluation of project proposal techniques	20,000		20,000	0.8%
2.4	Project financing	150,000	350,000	500,000	19.8%
	Subtotal	186,000	366,000	552,000	21.8%
III. Job skills and employability					
3.1	Labor market analysis	4,250	11,500	15,750	0.6%
3.2	Establishing knowledge profiles	8,000	5,250	13,250	0.5%
3.3	Partnership with IES for technical training	44,000	94,000	138,000	5.5%
3.4	Certification		15,000	15,000	0.6%
3.5	Business training for Mapuches	10,000	19,500	29,500	1.2%
3.6	Cycle of implementing innovation and productivity practices	15,000	35,000	50,000	2.0%
	Subtotal	81,250	180,250	261,500	10.3%
IV. Promotion of territorial collective goods					
4.1	Dissemination of the fund and laying the groundwork		10,000	10,000	0.4%
4.2	Identification and support for development		10,000	10,000	0.4%
4.3	Project financing	200,000	100,000	300,000	11.9%
	Subtotal	200,000	120,000	320,000	12.6%

Budget categories		MIF	Local contribution	total	%
V. Monitoring and dissemination					
5.1	Establishing baseline and monitoring system	30,000	10,000	40,000	1.6%
5.2	Maintaining and measuring performance indicators	33,000	10,000	43,000	1.7%
5.3	Dissemination of results	40,000		40,000	1.6%
5.4	Training and participation in international events	22,000		22,000	0.9%
	Subtotal	125,000	20,000	145,000	5.7%
VI. Coordination					
	Administration, logistics, coordination, and supervision		296,505	296,505	11.7%
	Project coordination and technical operation	92,000		92,000	3.6%
	Professional technical support	30,000		30,000	1.2%
	Accounting		20,000	20,000	0.8%
	Transportation and telephones		81,600	81,600	3.2%
	Equipment and office rental	5,000	53,000	58,000	2.3%
	Subtotal	127,000	451,105	578,105	22.8%
	Midterm and final evaluations	30,000		30,000	1.2%
	Audits	20,000		20,000	0.8%
	Contingencies	52,800	5,395	58,195	2.3%
	PROJECT SUBTOTAL	960,050	1,570,000	2,530,050	100%
	Impact Evaluation Account	4,950		4,950	
	"Promoting local competitiveness" cluster activities	25,000		25,000	
TOTAL		990,000	1,570,000	2,560,000	