

PROGRAM FOR IMPROVEMENT OF THE EFFICIENCY AND MANAGEMENT OF REGIONAL INVESTMENT

(CH-0161)

EXECUTIVE SUMMARY

Borrower:	Republic of Chile	
Executing agency:	Undersecretariat for Regional and Administrative Development (SUBDERE) of the Ministry of the Interior (MINTER)	
Amount and source:	IDB (CO):	US\$300 million
	Local:	US\$200 million
	Total:	US\$500 million
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	5 years
	Physical initiation of works:	4.5 years
	Disbursement period:	5 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
Objectives:	Currency:	U.S. dollar under the Single Currency Facility
	<p>The general objective of the program is to support efforts to improve the efficiency and management of regional investment in the framework of an expanded government decentralization process.</p> <p>To that end, the program will include activities aimed at achieving the following specific objectives:</p> <ul style="list-style-type: none"> (i) Continue channeling investment resources to promote socioeconomic development and, especially, improve the living conditions of the lowest-income groups. (ii) Develop the capacity of regional governments to plan, program, and allocate investment resources in accordance with the government's social development objectives and regional development priorities. (iii) Strengthen and rationalize the use of investment financing instruments at the regional government level. 	

- (iv) Improve the efficiency of regional investment, by enhancing the distribution and prioritization of investments within each region in order to optimize results.
- (v) Improve the quality and targeting of investments, by developing the capacity of municipal governments and technical units within the deconcentrated government system to plan, evaluate, design, and efficiently execute investment projects.
- (vi) Support the government in its efforts to deepen its decentralization policy.

Description:**Component 1: Investment (US\$410.4 million)**

The program will finance investments for which the regions are responsible; eligibility will be determined on the basis of project prioritization and selection criteria established under the operating regulations of the National Fund for Regional Development (FNDR) and by the regional governments.

The investments must be consistent with the regional strategic plans and the multiyear investment plans. The program will finance all sectors financed by the FNDR, including the following: (i) areas that have received financing through prior Bank operations, such as education, health, sanitation, rural roads, urban street paving, rural electrification, rural telephony, flood protection, and infrastructure for fishing coves; and (ii) investments of the type that the FNDR has traditionally financed with its own resources, such as investments in recreation and sports infrastructure, fire control equipment, and irrigation infrastructure.

Other projects that address emerging issues such as urban renewal, citizen security, and productive development will be supported on an experimental basis during the first two years of the program. The results of such projects will then be evaluated in order to determine whether they should be fully incorporated into the FNDR. As these types of intervention are found to be viable, the experience gained and the evaluation methodology used will be shared with the other regions.

Component 2: Institutional strengthening (US\$9.7 million)

Under this component, financing will be provided for technical assistance, consultancies, and equipment to strengthen the managerial capacity of the regional governments and regional government agencies (deconcentrated ministerial offices, services, municipal governments, etc.), as well as that of SUBDERE and the Ministry of Planning and Cooperation (MIDEPLAN) at the central government level.

At both levels of government, the aim is to achieve greater efficiency in regional investment through better coordination of available sources of funding and by financing investments that are consistent with regional development plans and strategies.

Component 3: Studies to deepen decentralization (US\$2 million)

Financing will be provided for studies and advisory services to support implementation of the government's decentralization strategy in the short and medium terms. The studies will focus on the following four areas: (i) political decentralization and citizen participation to enhance local and regional democracy; (ii) administrative decentralization and deconcentration to configure the distribution of responsibilities among the various levels of government; (iii) financial decentralization to consolidate a more autonomous and equitable financing system; and (iv) land-use management to create the necessary conditions for regional and local development with a national perspective that will reduce geographic inequities and address the specific problems faced by both urban areas and remote communities. The studies will be conducted during the first three years of the program and will include outreach and public information activities (stakeholders in the political and academic spheres and civil society organizations) through forums, seminars and workshops.

The Bank's country and sector strategy:

In line with the government program, the main objective of the Bank's strategy for Chile is to provide support to help increase competitiveness, reduce social and regional inequalities, and deepen democracy by fostering a more participatory society and a more modern State.

The proposed program is consistent with this strategy since its purpose is to strengthen the managerial capacity of the regional and municipal governments to assume responsibility for the provision of services transferred from the central government, thus achieving more balanced development in the country, and bolstering the capacity of the regional governments to allocate regional investment resources more efficiently and lay the foundations for the establishment of systems for public evaluation and accountability and citizen oversight.

Environmental and social review:

From the social and environmental standpoints, the program will have a positive impact on the communities directly affected by the projects, which will see improvements in their quality of life. Although certain projects to be financed under the program may have a moderate impact on the environment, the measures necessary to mitigate any adverse impact are well known, easily implemented and regulated

under the environmental impact assessment system (SEIA), a satisfactory system for environmental protection for the entire national investment system in the country (see paragraphs 4.7 to 4.9).

Benefits:

The program will finance projects that will have a direct positive impact on the living conditions of the population or will support economic development of the regions within a strategic framework for regional development. More than 50% of the projects in the pipeline of the Integrated Project Bank that are eligible for financing under the proposed program are in the areas of education, health, sanitation, rural electrification, and rural roads—all sectors that directly benefit low-income groups.

Strengthening regional public institutional capabilities will help produce development strategies that are tailored to the realities of each region. Financial management of public investment will be designed to combine the development interests of the different sectors and stakeholders through a set of planning, programming, and financing instruments that will improve coordination between the various levels of government. Opportunities for public participation, accountability, and control will thus be opened up. Coordination between sectors and between the regional and municipal governments will lead to more efficient use of the financial, human, and organizational resources available in the regions.

The studies component of the program will generate a broad-based dialogue with society and the principal political players on the main elements of the government decentralization program and its institutional and political implications. The dialogue will provide a broad framework for discussion and consensus-building that will make it possible to phase in the decentralization program within the current government's term of office.

Risks:

The regions' ability to utilize the various investment planning, prioritization, and programming instruments. Prior experience in the execution of projects with the FNDR has shown that it has a proven institutional and operational foundation to assure expeditious execution of the program, in particular the investment component. However, in order to deepen the decentralization process and increase the transfer of resources and autonomy to the regional governments it will be necessary to strengthen the technical and institutional capacity of the regional governments and introduce new managerial instruments, such as strategic planning in the prioritization of investments, multiyear investment programs, and programming agreements. These instruments are being developed and need to be introduced into investment management practices and processes and adapted by the regional governments in order to

overcome the institutional inertia that is the legacy of a long tradition of centralism and little autonomy for local government. This challenge will be addressed through the activities included in the institutional strengthening component and through the regions' gradual adoption and use of these instruments as the investment component proceeds.

Impact of the institutional strengthening component. Although the previous stage of support for the FNDR included resources for institutional strengthening of the regional governments, the decision by the Ministry of Finance to reduce the counterpart resources allocated to this component beginning in 1996 affected the institutional strengthening activities. However, because the objectives of the component were not adjusted to allow for the decrease in resources, the activities carried out were cut back, mainly to training courses. Generally speaking, the courses did not have any significant impact in terms of achieving the original objectives of institutional strengthening and development. In view of this situation, the following measures were included in the operation to ensure that this component has the desired impact on regional institutional development and improved efficiency and management of regional investment: (i) the institutional strengthening activities will not be limited to training but will include the development and use of instruments and mechanisms to enhance planning, programming, and prioritization of the regional investment portfolio; (ii) institutional strengthening units will be established in SUBDERE and in the regional governments, which will ensure that the activities carried out under the component are adapted and institutionalized, especially in the regions; and (iii) the Bank and SUBDERE have agreed on a matrix of performance indicators that will enable the Bank to closely monitor the extent to which the planned activities are being carried out and the objectives are being met.

**Special
contractual
clauses:**

Conditions precedent to the first disbursement. Prior to the first disbursement of the financing, the following documentation must be submitted to the Bank: (i) evidence that the national executing unit responsible for implementation of the institutional strengthening component has been created in SUBDERE and has been staffed with technical personnel qualified to carry out the duties assigned to the unit (paragraph 3.2); (ii) evidence that the Operating Regulations of the program have entered into force, in accordance with the terms and conditions previously agreed upon with the Bank (paragraph 3.6); (iii) evidence that the local counterpart resources for the first year of program execution have been allocated in the public-sector budget for the calendar year in which the loan contract is signed (paragraph 3.26); (iv) the model agreement that the borrower will sign with the UNDP for execution of subcomponent of the studies component to deepen

decentralization, for approval by the Bank (see paragraph 3.3); and (v) evidence that new indicators reflecting the regional development objectives pursued by the program have been incorporated into the formula for interregional resource allocation (paragraph 3.4).

Special contractual conditions: (i) To be eligible for institutional strengthening resources, the regions will be required to submit an institutional strengthening program with a favorable technical recommendation from MIDEPLAN, sign an agreement for that purpose with SUBDERE and demonstrate that they have established a regional institutional strengthening unit in the respective regional government (paragraph 3.2); (ii) the budget for 2002 must reflect the fact that the updated formula is being used for the allocation of resources to the regions (see paragraph 3.4); (iii) the income generated by rates must cover the costs of operation, maintenance, administration and unsubsidized investment (see paragraph 3.18); (iv) within 60 days after the end of each semiannual period of program execution, the executing agency will submit semiannual progress reports to the Bank for consideration on the status of program activities. The report submitted at the end of each year of program execution will also include the investment plan for the following year, the financial status of the program, and information on the institutional strengthening activities and the studies and activities for public information carried out during the respective year, as well as those planned for the following year (paragraph 3.31); (v) annually, after delivery of the semiannual progress report at the end of each year of program execution, SUBDERE will review the information with the Bank to assess the progress of the program, identify any difficulties that have arisen, and devise the necessary corrective measures (paragraph 3.32); and (vi) as part of the program evaluation process, two external evaluations will be conducted—a mid-term evaluation and a final evaluation—according to a methodology and guidelines to be agreed upon by the executing agency and the Bank. The findings of the first evaluation are to be submitted to the Bank once 50% of the program resources have been committed or 30 months after the effective date of the loan contract, whichever occurs first. The final evaluation is to be conducted within the six months prior to the date of last disbursement of the financing (paragraph 3.34).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity enhancing program, as described in the key objectives of the Bank's activities set forth in the Report on the Eighth General Increase in Resources (document AB-1704). However, as the makeup of the project portfolio under the program may vary, reflecting demand in the regions, it cannot be ascertained whether more than half of the direct beneficiaries will be poor. The operation therefore does not qualify as

a poverty-targeted investment (PTI) (see paragraphs 4.26–4.28).

**Exceptions to
Bank policy:**

None.

Procurement:

Based on a review of the bidding procedures carried out for works in previous stages of Bank financing for the FNDR, as well as the experience of the Ministry of Public Works with road works contracts (since road projects are the largest projects financed by the FNDR), the following thresholds are recommended for international competitive bidding under the program: construction works, US\$5 million; procurement of goods, US\$350,000; and consulting firms, US\$200,000.

Given the volume of projects to be financed and the fact that they will be spread geographically throughout the country, it is proposed that bidding for works and goods in amounts below the above-mentioned thresholds be reviewed ex post based on random sampling. In the case of contracts for consulting services in amounts above US\$50,000, the Bank will conduct an ex ante review of the terms of reference for the services, the short list of individual consultants and consulting firms, and the guidelines for ranking bidders.

I. FRAME OF REFERENCE

A. Background

1.1 The decentralization process in Chile was launched during the second half of the 1970s, when a territorial framework for administrative deconcentration of the State was established and 13 regions, 51 provinces, and 325 municipalities were created. The process translated into transfer of the administrative responsibilities of the central government to the regional governments, which are basically made up of regional offices of the sector ministries (deconcentration), and transfer to the municipal governments of administrative and functional responsibilities (decentralization).

1.2 Although the decentralization process has given the regions and municipalities greater autonomy to allocate resources and encourage local development, it has not been as broad in scope as other processes that promote fiscal federalism and full local autonomy. In Chile, the central government, in keeping with a firm decision to ensure rigorous budgetary control and fiscal discipline, has preferred to maintain strong control over revenues and expenditures at the local level. However, it has given the municipalities and regions autonomy in decision-making about the allocation of spending for economic and social infrastructure. In this context, beginning in the second half of the 1980s, the government decided to step up its strategy of decentralization and gave the regions responsibility for deciding on the use of the investment resources allocated to the Fondo Nacional de Desarrollo Regional [National Fund for Regional Development] (FNDR), a geographic compensation mechanism for financing activities in the area of social and economic infrastructure in the regions. Subsequently, during the 1990s, the government created several additional mechanisms for the allocation of regional resources for sector investment, in which the regions assumed responsibility for distributing the resources intraregionally for specific projects eligible under the guidelines of the respective sector ministries.

Table I-1
Chile: Social indicators

Indicators	1998	1990
Human development index	0.825	-
Life expectancy at birth	75.2 years	74.4 years
Infant mortality	10 per 1,000	16 per 1,000
Child malnutrition	0.5%	4.4%
Primary education enrollment	98.3%	96.8%
Secondary education enrollment	86.9%	80.5%
Water supply coverage	90.7%	
Sewerage coverage	77.3%	69.3%
Electricity coverage	95.1%	88.6

1.3 This process has been supported by the Bank through three loans, approved in 1985, 1989, and 1994, which helped build the institutional capacity of the regional governments and partially financed the FNDR program of investments. These

investments, more than 50% of which were concentrated in the areas of health, education, and sanitation infrastructure, have greatly contributed to the significant improvement in the country's social indicators (see Table I-1) and reduction of the poverty rate from 36.6% in 1990 to 21.7% in 1998.

B. The decentralization process

1. Legal framework

- 1.4 The constitutional reforms of 1991 (Law No.19,097) and the constitutional organic laws on municipalities (Law No. 18,695, enacted in 1992) and regional government and administration (Law No. 19,175, enacted in 1993) have accelerated the process of decentralization, modifying significant aspects of the Constitution of 1980.
- 1.5 The reforms ratify the existence of a unitary State with functional administrative deconcentration and geographic decentralization, retaining the structure of three tiers of subnational government: regional, provincial, and municipal, the latter level managed by the municipalities. The regional governments are recognized as legal entities with their own assets and with democratic bodies for citizen participation-the regional councils. There are also municipal councils, which are elected directly by the people. These reforms modified the prior administrative structure, which emphasized vertical dependence of the territorial entities and indirect participation by the community in decisions taken by authorities who were appointed by the central government. During the previous government administration, changes in the allocation of resources to the territorial entities were introduced. The law on regional government defined the size and composition of government staff at the regional level and allocated the resources necessary for the regional governments to function.
- 1.6 Although not directly related to decentralization, the Framework Law on the Environment (Law No. 19,300 of 1994) requires all government entities and private investors to assess the environmental impact of investments. This obligation also extends to the regional and municipal governments.

2. Institutional structure

- 1.7 Each region is administered by a regional government, which is composed of a regional governor and a regional council. The regional council members are elected by the municipal councils in the region. The regional governor, who is appointed by the President of the Republic, is responsible for the coordination, supervision, and oversight of public services in the region. The regional council, a regulatory, decision-making, and oversight body, is responsible, inter alia, for approving the annual investment budget proposed by the regional governor. Within the deconcentrated administrative structure of the State, the sector ministries are represented in the regions by Secretarias Regionales Ministeriales [regional

ministerial secretariats] (SEREMIs). Functionally, the SEREMIs come under the authority of the ministries, but their activities in the regions are coordinated by the regional governors.

- 1.8 Each province has a provincial governor, who is appointed by the President of the Republic and who carries out the duties assigned to him by the regional governor and the provincial economic and social council, an advisory body which allows for participation by the civil society of the province. Municipal affairs are administered by the municipal governments, which are headed by a mayor and a municipal council, both elected by popular vote.

C. Sectors under the responsibility of the decentralized government

- 1.9 The regional governments are responsible for a variety of functions related to the promotion of socioeconomic development in their territories. These functions include executing the investments financed by the FNDR, coordinating sector public investment in their territories, guiding private investment, and setting priorities for programs aimed at eradicating extreme poverty. The primary function of the regional governments is allocation of regional investment resources.
- 1.10 The municipal governments are responsible for land management, local roads, regulation of traffic, and execution of the social assistance activities to combat poverty that have been decentralized to this level of government. The provision of primary and secondary education, primary health care services, and distribution of the family assistance subsidies are currently municipal functions financed through special transfers from the central government. In addition, the regions assist the lowest-income municipalities in financing investments for urban road systems, for which they are responsible. The regional governments have also assumed responsibility for financing sanitation projects (drinking water and sewage systems), secondary roads (especially those that facilitate productive activities), rural electrification for isolated communities, collection and final disposal of refuse, rural telephony, flood protection, and infrastructure for small-scale fishing operations.

D. Resources of the decentralized government

1. Evolution of the financial framework for the decentralization process

- 1.11 In keeping with the effort to promote the development of the country's remote regions, the transfers from the central government to the regions in the early 1970s were devoted to financing regional development corporations, while transfers to the municipal governments were mainly contributions to the general budget. In 1970 the national government was responsible for financing and executing over 93% of public expenditures.

- 1.12 In the early 1990s, the situation began to change as a result of the decentralization measures. The transfers from the central government to the municipalities took on a more redistributive function and were directed toward financing the delivery of services that had been decentralized to the local level. At the same time, the transfers to the regions began to finance regional investments. In 1999 the national government was responsible for the execution of only 58% of public investment; however, it continued to finance more than 80%.
- 1.13 In recent years the transfers to the municipal governments have not been sufficient to fully cover the cost of providing the decentralized services, which has forced the municipalities to use resources from their current budgets to keep the services operating. In this context of deficit, they have not been able to adequately maintain the existing infrastructure, much less invest in order to meet the demand for new services. In fulfilling the subsidiary role that falls to them, the regions have devoted a significant proportion of the transfers they receive for investment to financing capital investments in health and education which the municipalities have been unable to afford. In the last decade, the FNDR has financed a substantial proportion of investment in infrastructure for municipalized education, primary health care, and sanitation, devoting more than half of the resources from the fund for that purpose.

2. Sources of financing at the subnational level

- 1.14 The basic mechanism of financing for the process of decentralization has been transfers between the various levels of government. Four basic mechanisms exist for effecting these transfers: (i) the FNDR; (ii) allocation of resources by the sector ministries to the regions for sector projects of regional priority, which are known as Inversiones Sectoriales de Asignación Regional [regionally allocated sector investments] (ISARs); (iii) Inversiones Regionales de Asignación Local [locally allocated regional investments] (IRALs), which are transfers from the central government to finance priority projects at the municipal level; and (iv) agreements between the regions and sector ministries to carry out specific projects or multiyear investment programs, which are known as programming agreements. In addition, municipal resources are available from the Fondo Común Municipal [Municipal Common Fund] and other local sources.

a. National Fund for Regional Development (FNDR)

- 1.15 As noted above, the FNDR is a geographic compensation mechanism that seeks to assist the regions that are most sparsely populated and located at the greatest distance from the central region through financing for activities aimed at strengthening their economic and social infrastructure. The FNDR is the most autonomous financial instrument available to the regions for projects, programs, and studies of regional and municipal scope and channels some 12% of total public investment. The projects financed by the FNDR are identified directly by local

entities and are selected and approved according to the guidelines and procedures of the Sistema Nacional de Inversiones [National Investment System] (SNI), which is administered by the Ministry of Planning and Cooperation (MIDEPLAN) and the Department of Budget within the Ministry of Finance.

- 1.16 Under the law that regulates the FNDR, the fund must distribute 90% of its resources to the regions, based on a set of socioeconomic and geographic indicators, in order to compensate for disparities in socioeconomic opportunities among the regions. The indicators include such variables as the percentage of the population living in poverty, access to basic social services and per capita regional product. Other indicators reflect geographical features such as the natural resource base, percentage of the population living in rural areas, demographic dispersion and distance from the capital. An additional 5% is distributed according to efficiency in spending, and the remaining 5% is reserved for an emergency fund. The efficiency of regional administration is measured by the amount of the portfolio of projects eligible for FNDR financing and by the ratio of actual disbursements to the budget allocated to the region the previous year, irrespective of the relevance and quality of the investments.
- 1.17 The regional development efforts supported by the FNDR have been oriented more toward specific projects related to basic and social infrastructure than toward the promotion of overall economic development of the region. There is limited coordination between the investments of the FNDR and those of other sources of financing, such as the sector ministries (through the ISARs), which has a negative impact on transparency as far as sector projects executed at the regional level are concerned and also hinders achievement of the objective of comprehensiveness in regional investment. Owing to the high demand for financing for local projects resulting from the chronic deficit in sector investment, the FNDR has limited ability to get involved in other development projects of regional or intermunicipal scope. Studies by the Economic Commission for Latin America and the Caribbean (ECLAC) suggest that as long as the municipal budget deficits are not addressed and the FNDR continues to function as the sole budget compensation instrument, the impact of these resources on regional development will remain limited.

b. Regionally allocated sector investments (ISARs)

- 1.18 This instrument was created in 1992 as a mechanism for allocating regional resources to finance preinvestment studies, programs, or projects that come under the responsibility of a ministry or one of its centralized or decentralized services but are to be carried out in a specific region. The regional government is responsible for determining how these resources will be distributed among specific projects that meet the eligibility criteria established by the respective ministry. The investments are targeted to marginalized population groups, with special attention to projects on basic sanitation (drinking water and sewage systems), urban development and municipal equipment, and neighborhood improvement. Although the ISARs are

instruments that are oriented toward decentralized territorial allocation to the regions, they are considered inefficient in several ways, namely: (i) they are subject to conditions and are highly directed by the respective sector ministry; (ii) they are not the only source of financing, as a result of which they encourage municipalities to obtain a maximum of resources without necessarily meeting the community's needs; (iii) they are instruments that compensate for municipal deficits, which limits their impact on regional development; and (iv) there is a lack of adequate and timely coordination with the regional governments to enable the latter to establish the criteria for prioritizing such investments.

c. Locally allocated regional investments (IRALs)

- 1.19 These instruments were created in 1996. They involve transfers from the central level (by sector) in amounts determined by the regions and allocated by each regional government to specific municipalities. The regional governments predetermine the most important sectors for investment, and the municipalities prioritize and select the projects to be financed, endeavoring to promote public participation in this process. Although they are subject to some conditions, IRALs are a more flexible modality that seeks to address the problems associated with ISARs.

d. Programming agreements

- 1.20 These instruments are formal agreements between one or more regional governments and one or more ministries which set out the activities to be carried out under the investment projects that they agree to undertake over a period of one or several years. The advantage of this instrument is that it gives greater political legitimacy to the central sector investments, since these are based on duly agreed regional strategies. The government would like to see programming agreements become more widely used, especially as instruments to promote investment deals between sector ministries and regions.

e. Municipal resources

- 1.21 Municipal revenues are derived from the Municipal Common Fund (40%),¹ municipal business fees (20%), property taxes (19%), drivers' license fees (9%), miscellaneous fees (9%), and fees for sanitation services (3%). Additionally, municipal governments receive direct transfers from the central government to cover the cost of the social services benefits they administer. With the adoption of the Law on Municipal Revenues in 1995, the revenues accruing directly to municipal governments grew around 50% over the period 1995-1998, which contributed to the doubling of municipal budgets between 1990 and 1998. Nevertheless, there continue to be local financing problems related to insufficient

¹ An intermunicipal compensation mechanism that transfers resources from rich municipalities to poor ones.

generation of resources in many communities. This situation can be attributed to several factors, including the following: (i) existence of a restrictive municipal tax framework (multiple exemptions, autonomy in the determination of tax rates, etc.); (ii) limited capacity for enforcement and collection of taxes and for the establishment of coordination and support mechanisms in other agencies of the State (Internal Revenue Service, Treasury); and, (iii) inadequate qualification of the personnel responsible for the management and quality of municipal spending.

3. Regional participation in investment decisions

- 1.22 The government has committed itself to expanding the decentralization process and has set the goal of increasing the degree of regional participation in decision-making about public investment from 20% in 1994 to 50% in 2004. Currently, the regions make around 42% of investment decisions. The investments are entirely financed through transfers from the central government by means of the aforementioned instruments. The following table illustrates the evolution of the share of these instruments in financing regional investment during the 1990s.

Table I-2
Investment determined by the regions by source of financing
as percentage of total

Year	FNDR	ISARs	IRALs	Programming Agreements
1990	100.0	0.0	0.0	0.0
1991	100.0	0.0	0.0	0.0
1992	67.6	32.4	0.0	0.0
1993	59.2	40.8	0.0	0.0
1994	54.9	45.1	0.0	0.0
1995	55.5	44.5	0.0	0.0
1996	49.8	35.9	9.0	5.3
1997	50.4	13.1	16.4	20.1
1998	37.5	24.0	13.0	25.5

- 1.23 As Table I-2 shows, the FNDR has traditionally been the main instrument for financing investment determined by the regions, but its relative weight has gradually decreased with respect to the other instruments, especially the ISARs, which give the central government a greater degree of control over investments. Its relative weight continues to fall with the growing importance of programming agreements, which have become instruments better suited to intersector and regional coordination.² In this context, the degree of autonomy and decision-making

² In 1998, FNDR investment totaled around US\$290 million, distributed as follows: education, 37.9%; roads 23.3%; energy, 8.8%; health, 7.8%; sanitation, 4.5%; productive development, 5.2%; and other, 12.5%.

capacity of the regions in the prioritization of investments is limited, as is their actual ability to coordinate with the sector ministries and municipal governments.

E. Pending issues related to the process of decentralization and the efficiency of regional investment

1. Challenges of the decentralization process

1.24 The Chilean decentralization process poses several dilemmas and challenges, which the new government is seeking to address: (i) political strengthening of the autonomy and accountability of the regional governments through direct election of their representatives; (ii) progress toward fiscal decentralization, since currently the regions do not have their own revenues, their investments are financed totally through transfers from the central government, and their investment priorities are partially decided by the sector ministries; (iii) clarification of the distribution of authority and functions between the various levels of government; and (iv) strengthening of the technical capacity of the regional and municipal governments in order to enhance their capacity to prioritize and plan investment projects.

1.25 This process, which is essentially political, is taking place in the context of the new government's strategy of expanding decentralization through gradual and selective transfer of new functions and responsibilities to the regional governments, coupled with a simultaneous increase in resources for investments decided at the regional level. The implementation of this strategy will require in-depth study of technical alternatives and consensus-building in order to bring about the needed normative and political changes. The program will support these initiatives of the government by financing a group of studies related to deepening the process of political, administrative, and fiscal decentralization of the State .

2. Improvement of efficiency in the allocation of resources

a. Efficiency of the regional investment financing scheme

1.26 Notwithstanding the efforts undertaken and the progress achieved in involving the regions in decisions regarding their own investments, only half the investment resources of the regions are under the full control of the regional governments. The sector ministries continue to have a decisive influence on the use of the rest of the transfers through the ISARs, to the detriment of regional autonomy. The government is seeking to improve the efficiency of the set of regional investment financing instruments by rationalizing and coordinating the use of the various instruments (FNDR, ISARs, IRALs, and programming agreements) so as to eliminate the perverse incentives to increase the separate and atomized demands on each of these instruments. At the same time, it is necessary to introduce incentives to increase the commitment and accountability of the regional and municipal

governments in order to rationalize the prioritization of investment projects and make the process more transparent. The challenge is to perfect and simplify the legal and financial instruments that govern the financing of decentralized investment so as to introduce greater autonomy with responsibility and improve coordination between the regional and municipal levels.

- 1.27 In response to this situation, the government proposes to continue increasing the resources available directly to the regions for investment, strengthening the FNDR and the programming agreements and gradually transferring ISAR and IRAL resources to the FNDR. These policies will entail a greater degree of autonomy for the regions, making it necessary to strengthen their capacity to plan and coordinate regional investment plans. The proposed operation will support these objectives by strengthening the technical capacity of the regional governments to develop multiyear investment programs and coordinate investment priorities with the municipalities and sectors.
- 1.28 There is also a need to continue improving the mechanisms for interregional distribution of FNDR resources, rewarding regions whose investments fulfill the government's programmatic objectives and produce high impact. To that end, the resource distribution formula will have to be revised, and the capacity for evaluation of the achievement of programmatic objectives will need to be improved, incorporating those objectives into the distribution criteria of the FNDR. The proposed operation will address these needs (see paragraphs 3.4 and 3.12).

b. National investment system and project cycle

- 1.29 The operational mechanisms for the preparation, evaluation, and execution of projects were developed by the National Investment System (SNI) and the Integrated Project Bank (BIP), which are national in scope and include a pipeline of projects at various stages of development. Currently, the number of projects in the BIP pipeline is substantially larger than the number of projects that pass the economic and technical evaluation required by the SNI. Although this situation indicates that the Secretarías Regionales de Planificación y Coordinación [regional planning and coordination secretariats] (SERPLACs) serve as an effective filter that ensures the viability and quality of the projects that pass the technical-economic evaluation, it also indicates that problems exist with regard to the quality and degree of maturity of the projects submitted to the system, which undermines the logic and discipline of the project cycle and forces the system to work inefficiently and under pressure.
- 1.30 The varying degrees of maturity of the projects submitted to the SNI reflect a distortion of the multiyear logic of the project cycle resulting from the emphasis on the presentation of new projects for approval each year, which leads to the submission of faulty or incomplete designs that must be revised later on and gives rise to significant differences between initial estimated costs and actual costs at the

time the project is executed. The proposed program incorporates lines of action aimed at remedying these weakness, including measures that will promote adherence to the “rules of the game” and the different phases of the project cycle in order to systematize the process and ensure that the SNI operates more efficiently and rationally (see paragraph 4.20).

c. Planning and prioritization of the use of FNDR resources

- 1.31 Intraregional allocation of FNDR resources continues to be dominated by the demands of the municipal governments and the need to address the need for investment in infrastructure, especially for health and education, that is not being met through sector investments and for which there has not been adequate regional planning. Consequently, the FNDR has become more a source of financing that compensates for the deficit in investment in these sectors than an instrument for the promotion of regional development. At the same time, in an effort to meet municipal demands, the regions have been financing a multitude of small projects, resulting in a dispersion of resources for projects of limited impact in the regional sphere. For this reason, the government’s initiatives to strengthen regional and local government capacity for medium- and long-range planning of regional development are seen as opportune, as are its efforts to promote institutional strengthening of regional and municipal governments through instruments such as the Programa de Fortalecimiento Institucional [Municipal Institutional Strengthening Program] (PROFIM).
- 1.32 These initiatives aimed at strengthening the municipal level need to be complemented by strengthening of the regional governments to enable them, working jointly with the municipal governments, to allocate FNDR resources to those projects that best respond to local needs and regional priorities and that are included within multiyear investment programs of regional and intermunicipal scope and promote the balanced development of the region. To meet these challenges, the proposed operation will finance activities to strengthen the regional governments aimed at enhancing the investment planning, programming, and prioritization instruments and putting in place appropriate mechanisms for coordination with municipal governments (see paragraphs 2.15 and 2.16).

F. Government program to expand the decentralization process

- 1.33 During the 1990s, the policy on modernization of the State and public administration focused on three areas: (i) strengthening democracy and citizen participation, expanding the decentralization process, and achieving greater transparency in public administration; (ii) effective management, oriented toward achieving results and enhancing the quality of public services; and (iii) greater efficiency in the administration and coverage of public services. In this framework, the political and administrative reforms of the decentralization process were an essential aspect of the government’s work after the return to democracy in 1990.

- 1.34 The government program “*Para Crecer con Igualdad*” [Growth with Equality] clearly establishes the new government’s commitment to complete the process of decentralizing and deconcentrating the State within a five-year period. To that end, the program calls for the following actions: (i) evaluation of the structure of the regions in order to strengthen their identity and the population’s commitment to them; (ii) continued transfer of the powers, functions, and resources of the central government to the regions; and (iii) broadening of the current powers of the regions with respect to investment in infrastructure and programs for productive development, agroforestry and mining, training, sports, culture, and urban development.
- 1.35 To achieve these objectives, the government proposes to carry out and support the following activities, among others: (i) updating of the regional development strategies during the second half of the year 2000, in a framework of dialogue and consultation with and participation by the population; (ii) promotion, beginning in 2001, of regional framework agreements as instruments for guiding and coordinating investment between the central (interministerial) level and the regional governments; (iii) increase in regional participation in investment decisions so that by the year 2004 at least 50% of total public investment is being decided by the regions (currently the figure is 42%); (iv) growth in FNDR resources, incorporating by 2001 all public investment that is primarily regional or local in scope, including the resources allocated to ISARs and IRALs; (v) streamlining of efforts to deconcentrate ministries and public services in order to strengthen regional cabinets; (vi) promotion of investment agreements between regional-municipal governments and associations of municipalities, with updating of local development plans and articulation of investment programs with the regional development strategies; and (vii) promotion of public-private collaboration in the framework of regional economic development.
- 1.36 At the same time, in order to establish the technical foundation and political consensus necessary for the success of the decentralization proposals, the government intends to carry out a series of studies aimed at bolstering its decentralization policy. These studies, which the government will seek to disseminate widely through consultation and consensus-building events, will focus on the following thematic areas: political decentralization, administrative decentralization and deconcentration, fiscal decentralization, and land management.

G. Conceptualization of the program

- 1.37 This operation is being proposed in the context of the government strategy of deepening the decentralization process and, to that end, strengthening the administration of the regional governments and improving the FNDR as the principal financing instrument for the regions. Consequently, in addition to financing of investments through the FNDR, the design of the operation incorporates a component of studies and consensus-building to support

implementation of the government's decentralization strategy and a component for strengthening the regional governments.

- 1.38 In general, this new operation will entail a move toward a second-generation FNDR, given the need to address issues related to the expansion of the decentralization process and the necessity of improving the efficiency of public regional investment. It will also promote FNDR involvement in areas of action that will complement it, strengthen it, and give it sustainability, making the fund a true coordinating mechanism for regional investment plans. The new operation will stress the development of investment programs that will: (i) reinforce the regional development strategies and the community development plans, which will be translated into regional framework agreements and thus will become instruments for guiding and coordinating investment; (ii) give greater emphasis to the objective of regional economic development; (iii) prioritize the financing of territorially integrated projects; (iv) advance toward a multiyear planning framework for regional investment; and (v) foster the development of programming agreements, not only at the level of regional government and sector ministries, but also at the level of regional and municipal governments, as a mechanism that will give better expression to regional interests in the allocation of sector resources.
- 1.39 Specifically, the program includes activities aimed at: (i) developing the planning capacity of the regions to enable them to identify, development and execute multiyear regional investment programs of a multisector nature, which will make it possible to overcome the current problem of atomization of regional investment caused by lack of intermunicipal and regional investment coordination mechanisms; (ii) enhancing mechanisms for coordinating with the investments of the sector ministries; (iii) strengthening the FNDR as a regional investment financing mechanism, standardizing the criteria for resource allocation and project evaluation within the fund, adding new types of investment of regional interest, and improving the State's capacity for effective monitoring of the investments financed; and (iv) promoting strengthening of the municipal governments and executing units within the decentralized government apparatus in order to foster comprehensive development of their capacity as executors of the FNDR-financed projects. The table below illustrates how the program will fit within the government's strategy.

Table I-3
Government strategy and rationale for the operation

Problem / Challenge	Government strategy	Support provided by the program
Improve the planning, prioritization, and regional impact of FNDR investments	<ul style="list-style-type: none"> • Gradual and selective transfer of ISARs and IRALs to FNDR. • Increase the volume of FNDR resources and the participation of the regions in investment decisions. 	Component 1: Finance a portfolio of projects under a "second-generation" FNDR open to all sectors, with a growing share of integrated and multiyear projects designed to have a greater impact on the development of the regions.
Coordination and administrative problems of the regional governments that limit the efficiency and impact of regional investment.	Technical strengthening of the regional governments to improve: <ul style="list-style-type: none"> • Investment planning. • Coordination among the various instruments. • Transparency and public accountability. 	Component 2: Strengthen the capacity of regional government institutions to develop instruments and processes to improve the planning, coordination, prioritization, and execution of regional investment and the FNDR as the centerpiece of the investment strategy
The current political/institutional framework limits the development and autonomy of the regions.	<ul style="list-style-type: none"> • Expand the process of decentralization gradually and selectively within the current government's term of office. 	Component 3: Studies and consensus-building to deepen decentralization and enable implementation of the government's strategy.

H. The Bank's experience with previous operations

- 1.40 The Bank has been supporting the process of local development and decentralization in Chile through financing for three local investment programs, with loans totaling US\$410 million. Those loans, which have been satisfactorily executed, are (a) loan 141/IC-CH Multiple Investment Program I (PIM I), approved in December 1984, for US\$125 million, which provided partial financing for projects for the construction and equipment of public works in the areas of education, health, rural roads, urban paving, and drinking water and sewage systems, which made up a program with a total value of US\$271 million; (b) loan 578/OC-CH, approved in December 1989, for US\$210 million, which financed the US\$300 million Multiple Investment Program II (PIM II), and (c) loan 853/OC-CH for US\$75 million, approved in December 1994, which financed the US\$500 million Local Development Program (PDL). As of August 2000, 94% of the latter loan had been disbursed.
- 1.41 These operations have enabled the Bank to assist the evolution of the process of decentralization and deconcentration of the State in Chile. The PIM I helped establish the regions as deconcentrated executors of investments in social infrastructure. In order to tailor the investments to the government's priorities, the Operating Regulations of the PIM I established percentage goals for investment in the priority sectors. The Bank's participation also helped enhance the procedures for assessing local development projects under the SNI and consolidate mechanisms for bidding and contracting for public works. The PIM II made a significant contribution toward consolidating municipal infrastructure for health

and education, in addition to allowing direct channeling of subsidies to the lowest-income families.

- 1.42 In light of the experience gained by the regions in the allocation of resources and the progress achieved by the SNI in the evaluation of projects, for the PIM II the physical and financial goals regarding project type were eliminated, new sectors of investment (rural electrification, for example) were introduced, and expedited procedures were established in order to incorporate new sectors of investment during the execution of the program. The ex-post evaluation of the PIM II confirmed the progress made, but it also signaled the need of improve project evaluation in order to take better account of specific regional characteristics, improve interregional distribution of FNDR resources, strengthen the work of the technical units, and improve budget execution. These developments would make it possible to achieve the objectives of enhancing the FNDR as an instrument of support for regional development priorities and improve regional coordination in the management of projects.
- 1.43 The PDL was designed to fulfill the above-mentioned objectives by supporting the establishment of the regional governments and the consolidation of the system for assessing the environmental impact of the investments financed by the FNDR. In the course of the program, the FNDR's position as the main source of financing for regional development—especially in the social sectors—was consolidated, and it contributed to the country's efforts at greater decentralization of investment, as a result of which in 1999 investment initiatives of regional origin comprised 42% of public investment. Nevertheless, the progress in this area was not accompanied by similar progress in institutional strengthening, an activity that suffered due to budget cuts in the late 1990s. Despite the successes achieved, the partial evaluations and inspection visits carried out by the Country Office to the regions and municipalities indicate that it is necessary to bolster the institutional strengthening efforts in order to enhance the investment planning, programming, and coordination process; improve project quality, especially in the weakest municipalities; and improve the supervision of works and assure their proper maintenance. These needs will be addressed by this operation.

I. Activities of other international organizations in the sector

- 1.44 In January 1994, the World Bank financed the Municipal Institutional Strengthening Program (PROFIM) for US\$20 million through loan 3668/CH for US\$10 million, with contributions from the Government of Chile and the participating municipalities. PROFIM I was a pilot program aimed at improving administration in 24 municipalities of the country, as well as the quality, coverage, and timeliness of the services that the municipalities provide to citizens.
- 1.45 In light of the positive experience gained and the achievements of PROFIM I, the World Bank agreed to finance a second stage of PROFIM in another 24

municipalities of the country by means of loan 4429-CH of April 1999, which provides US\$10 million for a program of US\$20 million. PROFIM II seeks very similar objectives to those of the previous stage, but it fine-tunes them, taking into account the experience of the first stage. The specific objectives of the second stage are, inter alia: to strengthen and enhance the internal administrative capacity of the municipal governments in the organizational and human resources areas; to strengthen the managerial and leadership capabilities of municipal officials; to improve internal municipal planning, organizational, and administrative capabilities; to increase the financial autonomy of the participating municipalities; to improve the municipal governments' capacity for the planning, administration, and control of service delivery; to transfer to the municipalities the capabilities that will enable them be more responsive to users and the community; and promote and strengthen innovation and collective effort within municipalities. The World Bank loan will be executed over four years.

- 1.46 The United Nations Development Programme (UNDP) has also been collaborating with MIDEPLAN and SUBDERE for years through studies, advisory services, and training to promote institution-building in the regional and local governments and identify socioeconomic characteristics of the regions and municipalities for purposes of decision-making.

J. The Bank's country strategy

- 1.47 In keeping with the government's program, the main objective of the Bank's strategy for Chile is to help boost competitiveness, reduce social and regional inequalities, and strengthen the country's democracy by fostering a more participatory society and a more modern State. This strategy was developed in concert with the country by means of a process of dialogue and extensive consultation through workshops on specific issues, in which stakeholders from the public sector, the private sector, and civil society took part.
- 1.48 In accordance with the government's program and its economic, social, and political priorities, as well as the Bank's institutional strategy, which underscores the need for a more targeted program that utilizes the Bank's comparative advantages and maximizes its action in the country, the priority areas for action by the Bank in Chile are:
- a. Support for initiatives that will boost competitiveness and productivity by improving the regulatory framework, enhancing efficiency and effectiveness in the delivery of public services, and strengthening mechanisms of support for technological innovation, with emphasis on forging alliances with the private sector.
 - b. Support for activities aimed at achieving social and regional equity and the improvement of quality of life for the population, with particular emphasis on

vulnerable groups (indigenous communities, female heads of household, at-risk children and young people, victims of domestic violence, the disabled, and older adults).

- c. Support for processes that will encourage improvement of the State's ability to provide public services; strengthen alliances between civil society, the State, and the private sector; and increase citizen participation in the design, execution, and evaluation of public policies.

- 1.49 The proposed program fits within the last two priority areas as it seeks to strengthen the capacity of the regions and municipalities to assume responsibility for providing the services transferred from the central government and achieve more balanced development of the country, while also bolstering the capacity of the regional governments to allocate regional investment resources more efficiently. At the same time, the program will lay the foundations for the establishment of a public accountability and auditing system.
- 1.50 In addition, in the area of social and regional equity and improvement of quality of life, the proposed program will complement the Program for Integrated Development of Indigenous Communities (CH-0164), and in the area of improvement of State action, the program will complement the Program for Strengthening of Civil Society (CH-0165). Both projects are included in the Bank's pipeline for the country during the period 2000-2002.

II. THE PROGRAM

A. Objectives

- 2.1 The general objective of the program is to support efforts to improve the efficiency and management of regional investment in the framework of an expanded government decentralization process. To that end, the program will include activities aimed at achieving the following specific objectives:
- (i) Continue channeling investment resources so as to promote socioeconomic development and, especially, improve the living conditions of the lowest-income groups.
 - (ii) Develop the capacity of regional governments to plan, program, and allocate investment resources in accord with the government's social development objectives and the regional development priorities.
 - (iii) Strengthen and rationalize the use of the investment financing instruments at the regional government level, the National Fund for Regional Development (FNDR) and the regionally allocated sector investments (ISAR), and promote the use of programming agreements as shared financing mechanisms for regional investments.
 - (iv) Improve the efficiency of regional investment, seeking to enhance the distribution and prioritization of investments within the region in order to optimize their impact.
 - (v) Improve the quality and targeting of investments, developing the capacity of municipal governments and technical units within the decentralized government system of regional ministerial secretariats (SEREMIs) and regional sanitation corporations to plan, evaluate, design, and efficiently execute investment projects.
 - (vi) Support the government in its efforts to deepen its decentralization policy.

B. Scope of the program

- 2.2 During the period 1996-2000 an average of US\$252 million was allocated annually to the FNDR, representing some 12% of total public investment. The Ministry of the Interior and Ministry of Finance project an increase in the resources allocated to the regions through the FNDR as a result of transfer of the sector resources currently allocated through the ISARs, which averaged US\$155 million annually during the same period. Thus, based on the budgetary allocations to the FNDR and ISARs in recent years and the trend toward increased investment determined by the

regions, the expanded FNDR would have an annual budget of between US\$400 million and US\$500 million for the next five years, representing 20% to 25% of total public investment. The government has requested that the Bank provide partial financing for the investment program with a loan for US\$300 million out of a total amount of US\$500 million, which includes US\$9.7 million for institutional strengthening and US\$2 million for studies to deepen the decentralization process.

C. Description

2.3 To achieve the set of proposed objectives, the program will have three components:

1. Component 1: Investment (US\$410.4 million)

2.4 The program will finance investments for which the regions will be responsible; eligibility will be determined on the basis of project prioritization and selection criteria established under the operating regulations of the National Fund for Regional Development (FNDR) and the regional governments. To be eligible, projects must also have received (i) a recommendation from the National Investment System following their evaluation by the regional planning and coordination secretariats (SERPLACs) or the Ministry of Planning and Coordination (MIDEPLAN), and (ii) the approval of the Consejos Regionales de Evaluación Ambiental [regional environmental assessment councils] (COREMAs) or the Comisión Nacional del Medio Ambiente [National Environmental Commission] (CONAMA), as applicable.

2.5 Investment eligibility will be determined taking into account consistency with the regional development strategies and multiyear investment plans. The annual investment programs of the FNDR will gradually incorporate a growing proportion of strategic projects, with a corresponding decrease in the proportion of projects not linked to the regional development strategy (RDS). The institutional strengthening component will finance activities aimed at improving the formulation of the RDS and translating it into multiyear investment programs that will form the basis for regional framework agreements to be entered into by the regions and central government agencies in order to improve the coordination and effectiveness of public investment in the regions (see paragraph 3.9).

2.6 The program will finance all sectors financed by the FNDR, which include the following: (i) areas that have received financing through prior Bank operations, such as education, health, sanitation, rural roads, urban paving, rural electrification, rural telephony, flood protection, and infrastructure for fishing coves; and (ii) investments of the type that the FNDR has traditionally financed with its own resources and for which MIDEPLAN has developed evaluation criteria satisfactory to the Bank, such as investments in recreation and sports infrastructure, fire control

equipment, and irrigation infrastructure;³ and (iii) investments in areas in which the government is seeking to develop regional capacity, such as urban renewal, public safety, and productive development.

- 2.7 The bulk of the resources will be devoted to investments in the first two areas. Programs that address the emerging issues mentioned above will be supported on an experimental basis during the first two years of the program, at which time their results will be evaluated in order to determine whether they should be fully incorporated into the FNDR. As these types of interventions are found to be viable, the experience gained and the evaluation methodology used will be shared with the other regions. To that end, the institutional strengthening component will finance technical assistance and consulting for the formulation of projects to enable all regional public institutions to develop these new types of intervention by the FNDR to foster regional development.

2. Component 2: Institutional strengthening (US\$9.7 million)

- 2.8 The program will include resources for institutional strengthening of the regional governments, as well as that of SUBDERE and MIDEPLAN at the central government level. Financing will be provided for technical assistance, consultancies, and equipment to develop instruments and mechanisms for the planning and coordination of regional investment and to strengthen the administrative capacity of the regional governments and regional public institutions (decentralized ministerial offices, services, municipal governments, etc.).
- 2.9 At both levels of government, the investments and activities for institutional strengthening will be closely linked to efforts to develop and improve technical and administrative capacity in order to achieve greater efficiency in regional investment through better coordination of available sources of funding and financing of investments in accordance with the respective strategy for regional development and multiyear investment plan.

a. Strengthening of the central level

- 2.10 This subcomponent will include activities aimed at increasing the capacity of SUBDERE and MIDEPLAN at the central level to lead the effort to push forward the decentralization process. Among the central-level functions to be supported under the subcomponent will be studies and systematization of the experience of the 13 regions, as well as the technical assistance needed to bring about the transfer and adoption of new administrative instruments and practices in the regions.

³ Investments not financed by the Bank are excluded, such as investments for preventive detention centers for adults; penitentiaries; jails; police stations, posts, and equipment; and training that takes the place of advanced training for educators already being provided by the formal educational system (professional institutions and universities).

Investment project supervision and ex post project evaluation will be addressed through financing for new activities to be carried out by MIDEPLAN.

- 2.11 **Regional management monitoring system:** Resources will be provided to strengthen and update of the Sistema de Información para la Gestión Regional [Regional Management Information System] (SIGRE), an electronic management information tool that sets parameters for monitoring and evaluation of regional public administration. This subcomponent will finance, among other activities, systematization and validation of the geographic, social, economic, and cultural information available in the regions; creation of databases to facilitate decision-making in the regional governments; upgrading of the regions' geographic information systems (GIS); and standardization of the information systems used in the regions.
- 2.12 **Promotion of transparency in regional government:** The following activities will be financed: (i) design and launch of a public information campaign at the national level (Internet portal, publications, media campaign); (ii) development of a proposal for strategies to encourage citizen involvement in the regions; and (iii) evaluation of the regions' public information campaigns from the perspective of the public.
- 2.13 **Improvement of the capacity to provide technical assistance to the regions:** Financing will be provided for activities to enable SUBDERE to support the regions in the introduction of instruments and mechanisms for more efficient and transparent administration. These include: (i) systematization of successful experiences in the use of planning and investment instruments; (ii) development of a proposal for the implementation of a system of incentives to encourage efficiency in administration in the regions; (iii) development of methodological guidelines for the integration of development plans, the management of regional investment, and the approval of incremental stages and inspection of public works; and (iv) evaluation of the institutional strengthening component based on the results obtained in the regions.
- 2.14 **Development of evaluation methodologies:** To achieve greater efficiency in the project evaluation procedures, the program will finance the development of evaluation methodologies for programs in new areas for which suitable methodologies do not currently exist (e.g., urban renewal, public safety) and for innovative projects designed to address the needs of specific population groups (women, indigenous groups). In addition, financing will be provided for the development and implementation of an ex post project evaluation system, commencing with a limited number of projects which will be evaluated based on the findings of the ex ante evaluation. A greater number of projects will be incorporated gradually as the system is refined.

b. Strengthening of the regional level

- 2.15 This subcomponent will encompass activities aimed at modernizing regional administration in the following areas: **Development of instruments and mechanisms for the planning and administration of regional investment:** The following activities are envisaged: (i) systematization of the experience gained at the regional level in regard to articulation of investment instruments and development of a proposal to adapt and coordinate the existing instruments such as community development plans, regulating plans, intermunicipal plans, urban development plans, and sector plans based on the regional development strategy (RDS); (ii) establishment and implementation of framework agreements for investment, programming agreements and local agreements (region-municipalities) and, (iii) development and administration of portfolios of projects that are consonant with the RDS. In this context of activities, the program will finance consultancies, equipment, materials, training workshops, and consensus-building forums for the institutionalization and coordination of the new investment instruments. In addition, it will finance the design and evaluation of integrated interventions for addressing emerging issues such as those mentioned in paragraph 2.7.
- 2.16 **Strengthening of planning and management capacities:** Activities are planned to make regional administration more efficient through: (i) development and implementation of a system of incentives to encourage quality and efficiency; (ii) development of methodologies and criteria for the technical prioritization of investments by sectors; (iii) implementation of a system for the development and exchange of successful managerial innovations between regions; (iv) development of the managerial and technical capacities of regional authorities and professional and technical teams; (v) identification and dissemination of collaborative experiences between sector ministries, between the private and public sectors, and between regions and municipalities; and (vi) updating of existing information bases and implementation of information systems for decision-making. In addition, development and implementation of organizational improvements in the regional governments may be carried out. In this context, the Program will finance consultancies, equipment, development of human resources (training workshops, seminars, and courses), and production of guides, instruction manuals, and materials (electronic, audiovisual) for the adoption of more efficient practices compatible with the objectives of the program.
- 2.17 **Monitoring and information dissemination on regional administration:** Activities are envisaged under this subcomponent to foster transparency and accountability in regional administration through dissemination of information on the results of that administration and the implementation of civil-society participation mechanisms. The program will finance consultancies, equipment, and materials for the design and implementation of: (i) a system for monitoring and evaluation of regional government administration; (ii) design and implementation

of public information campaigns in the regions; and (iii) implementation of mechanisms to facilitate participation by the public and other important stakeholders in the regions—such as regional council members, municipal government officials, nongovernmental organizations (NGOs) and regional universities—in matters relating to regional development.

3. Component 3: Studies to deepen decentralization (US\$2 million)

- 2.18 Financing will be provided for studies and advisory services to support the implementation of the government's decentralization strategy in the short and medium terms. The studies will focus on the following four areas: (i) political decentralization and citizen participation to enhance local and regional democracy and strengthen the legitimacy of subnational authorities, bringing decision-making systems closer to citizens; (ii) administrative decentralization and deconcentration to configure the distribution of responsibilities between the various levels of government and improve the State's administration in terms of quality, equity, and opportunity; (iii) financial decentralization to institute a more autonomous and equitable decentralized financing system that will encourage efficient use of resources; and (iv) land management to create the necessary conditions for regional and community development with a national perspective that will reduce geographic inequities and address the specific problems faced by metropolitan regions and isolated communities. It is expected that these studies will be conducted during the first three years of the program and that they will include activities aimed at consulting and informing the public (political, academic, and civil-society actors) through forums, seminars and workshops.

D. Cost and financing

- 2.19 The total cost of the program will be US\$500 million, of which the Bank will finance US\$300 million with Ordinary Capital (OC) resources. The following table shows program costs by category of investment and source of financing.

Table II-1
Program costs by category of investment and source of financing
(thousands of US\$)

CATEGORY OF INVESTMENT	IDB/OC CONTRIBUTION	LOCAL CONTRIBUTION	TOTAL	%
1. Administration and supervision	250	17,450	17,700	3.6
1.1 Administration national control unit	-	2,900	2,900	
1.2 Administration regional control unit	-	3,150	3,150	
1.3 Evaluation (midterm and final)	250	-	250	
1.4 Supervision of works	-	11,400	11,400	
2. Direct costs	296,750	125,350	422,100	84.4
2.1 Investments (construction and equipment)	294,750	115,650	410,400	
2.2 Institutional strengthening (workshops, consultancies, equipment, materials, training)	-	9,700	9,700	
2.3 Studies (consultancies, workshops, seminars, forums, materials)	2,000	-	2,000	
SUBTOTAL	297,000	142,800	439,800	88.0
3. Financing costs	3,000	57,200	60,200	12.0
3.1 Credit fee	-	4,500	4,500	
3.2 Inspection and supervision	3,000	-	3,000	
3.3 Interest	-	52,700	52,700	
GRAND TOTAL	300,000	200,000	500,000	100.0
Pari passu	60%	40%	100 %	

III. PROGRAM EXECUTION

A. Execution mechanisms

- 3.1 Building on successful experiences in the execution of previous programs, the investments component will be coordinated by the units currently responsible for administration of the National Fund for Regional Development (FNDR): the Division of Institutional and Financial Strengthening of SUBDERE (National Control Unit), which will serve as the general coordinator of the program, and the respective Regional Control Units (UCRs) in each region. The Ministry of Planning and Coordination (MIDEPLAN) and the National Environmental Commission (CONAMA) will also be involved in program execution. MIDEPLAN will participate through its decentralized regional offices, the regional planning and coordination secretariats (SERPLACs), which will be responsible for analyzing the projects, updating the regional development strategies, and preparing the multiyear regional investment programs that will be submitted for consideration and approval by the regional councils. CONAMA, in turn, will work through the regional environmental assessment councils (COREMAs), which will assess the environmental impact of projects and recommend mitigation measures to be considered by the regional planning and coordination secretariats in the evaluation of projects.
- 3.2 For the execution of the institutional strengthening component, a national executing unit will be formed within the Division of Institutional and Financial Strengthening of SUBDERE, which will be responsible for planning, execution, and control of the technical and financial execution of the component. The national executing unit will have counterparts in the regions, regional institutional strengthening units, which will be responsible for executing the institutional strengthening activities in their respective regions. **Submission of proof that the national executing unit has been formed and staffed with technical personnel qualified to carry out the responsibilities assigned to the unit will be a condition precedent to first disbursement of the loan. To be eligible for institutional strengthening activities, the regions will be required to submit proof that they have created a regional institutional strengthening unit within the regional government.** Responsibility for the institutional strengthening activities to be carried out by MIDEPLAN will be entrusted to that Ministry's Division of Planning, Studies, and Investments.
- 3.3 The component of studies to deepen decentralization will be executed by the Division of Regionalization and Decentralization Policies of SUBDERE. This division will be responsible for identifying the issues to be studied and developing the terms of reference for the studies, as well as for activities to disseminate the conclusions and recommendations of the studies. For that purpose, it will organize forums, seminars, and workshops to bring together representatives of universities,

research centers, NGOs, and other public and private institutions for discussion and the promotion of studies. SUBDERE has reached an agreement with the United Nations Development Programme (UNDP) for the UNDP to provide support in the awarding of contracts for certain packages of studies to be conducted under this component, in the total amount of no more than US\$600,000 equivalent. UNDP services will consist of issuing the call for proposals and selecting, hiring, and supervising the consultants hired to conduct the studies. The UNDP will not administer program resources or charge the country any fee for services rendered. **As a condition precedent to the first disbursement, SUBDERE must submit to the Bank for approval the model agreement it will enter into with the UNDP.**

B. Resource allocation mechanism

1. Interregional allocation

- 3.4 The resources allocated annually under the Budget Act for the FNDR are distributed among the 13 regions according to the formula mentioned in paragraph 1.16 that seeks to compensate the regions for geographical and social disparities. However, given the increase in resources the FNDR is expected to see once the ISAR resources are transferred to it and the decision to empower the FNDR as an instrument for regional development beyond its purposes of geographical compensation, the formula for resource distribution will need to be updated. Additional indicators will need to be introduced giving greater weight to variables in economic development, such as regional domestic product and its growth rate and the economic competitiveness index of the regions. **The formula to be used must be updated and submitted to the Bank for consideration as a condition precedent to the first disbursement. The budget for fiscal year 2002 must reflect the fact that the updated formula is being used for the allocation of the resources to the regions.**

2. Intraregional allocation

- 3.5 The regions use varying procedures for the formulation of their annual investment budgets. As noted earlier, in some cases these procedures distribute the resources proportionally among the municipalities, which affects the capacity to promote projects of regional interest. The institutional strengthening component will help the regions to develop procedures for intraregional allocation of resources that are more closely aligned with the program's objectives of promoting regional development, enhancing regional development strategies, local development plans, and regional framework agreements. In this context, an agreement has been reached with SUBDERE under which the proportion of strategic projects in the annual investment programs of the FNDR will be 50% by the third year of program execution and 70% by end of the program execution period.

C. Operating regulations

- 3.6 The program will be executed in accordance with the Operating Regulations, **implementation of which will be a condition precedent to the first disbursement of program resources**, and by the procedures and regulations governing the National Investment System (SNI).

1. Operation of the SNI and project cycle

- 3.7 The investments to be financed by the program will be selected by means of the process employed by the National Investment System developed by Chile over 20 years ago and gradually refined. The process comprises three main stages: (i) development and analysis of individual projects; (ii) regional prioritization and approval of the FNDR investment plan; and (iii) execution and operation of the projects. These stages involve the principal regional institutional actors, the municipal governments, and the decentralized sector services, which propose the projects; SERPLAC and COREMA, as evaluating entities; and the regional government, which prioritize and approve the regional investment plan. The following table summarizes the process.

STAGES	Development and analysis of individual projects	Prioritization and approval of FNDR investment plan	Project execution and operation
RESPONSIBLE PARTY	<div> <ul style="list-style-type: none"> Municipalities Sectors </div> <div> <div>SERPLAC (MIDEPLAN)</div> </div>	Regional Governor → Regional Council	<ul style="list-style-type: none"> Responsible technical unit (execution) Sector services or municipal governments (operation)
OUTCOMES	<div> <ul style="list-style-type: none"> Idea Profile Additional information Technical-economic analysis </div> <div>↓</div> <div> <ul style="list-style-type: none"> Socioeconomic recommendation </div> <div>↓</div> <div> <ul style="list-style-type: none"> Final design </div>	Portfolio of projects with socioeconomic recommendation <ul style="list-style-type: none"> Regional prioritization (regional government) Approval (regional council) Multiyear programming (Regional government SERPLAC) 	<ul style="list-style-type: none"> Project executed Project serving its beneficiaries

- 3.8 **Preparation and analysis of individual projects:** The project proponents—the municipal governments or sectors—prepare the projects and submit them to SERPLAC for analysis and technical and economic evaluation and to COREMA for assessment and analysis of their environmental impact. These entities either approve them or make recommendations for modification of the projects. Project

development is an iterative process of maturation, in which the project originates from an idea, which is translated into a project profile and a project abstract, which in turn is submitted to SERPLAC for incorporation into the SNI. The profile is accompanied by additional information required for the technical and economic analysis by SERPLAC/ MIDEPLAN.

- 3.9 To be eligible for financing, projects must meet the criteria established by MIDEPLAN and set forth in the sector methodologies for social evaluation of projects and the rules and procedures of the basic investment statistics system (SEBI). According to those criteria, the projects must: (i) be properly identified and presented, according to SNI standards for project presentation; (ii) undergo socioeconomic evaluation by MIDEPLAN (implying that they demonstrate that they have a positive net social value in the case of projects in which the cost-benefit methodology is used or demonstrate project suitability when the cost-efficiency approach is used); and (iii) be municipal or sector projects that will promote regional development (consistency with the respective regional development strategy and municipal development plan) and fit within the budget framework established annually by the Ministry of Finance. These criteria are revised periodically by the MIDEPLAN Department of Investments with a view to improving and adapting them to advances in methodology and techniques for social evaluation of projects. The Project Team analyzed the application of these criteria for a sample of projects and verified their suitability and consistency with Bank policies. The pertinent documentation may be found in the project files. The operational methods of the National Investment System have proven effective in improving the quality of projects and selecting those that will yield social returns consistent with the criteria established in the manuals.
- 3.10 To ensure that resources are allocated to projects with an adequate social return, all projects submitted for financing undergo a process of technical-economic analysis in which it is verified that the project has been evaluated in accordance with appropriate methodologies, it is consonant with current policies and with the RDS, and that resources are available to finance its operation. This analysis is carried out by the MIDEPLAN Department of Investments or by SERPLAC, as applicable. Assessment of the environmental impact of projects is the responsibility of the COREMAs.
- 3.11 Projects that do not meet the technical evaluation criteria are rejected or returned for reformulation. Those deemed satisfactory by the SERPLAC or MIDEPLAN receive a favorable recommendation in the technical economic review and are included in the inventory of projects recommended technically for execution; the responsible technical unit then draws up the final design of these projects, which are incorporated into the pipeline of projects eligible for execution.
- 3.12 **Prioritization and approval of projects to be financed by the FNDR:** It is the responsibility of the regional government, under the leadership of the regional

governor, to prioritize the eligible projects to the regional council for its approval. At this level, the regional government should strive to ensure that the projects submitted for financing are consistent with the local development plans and the regional development strategies, as well as with national sector policies. Finally, approved projects are submitted to the FNDR for financing, subject to the limits of the budget established annually for each region.

- 3.13 **Execution and operation of projects:** The approved projects make up the investment program of the FNDR and are executed by the technical units. In some cases, the projects are operated by these same units or by decentralized sector services and in other cases, by the municipal governments, depending on the sector. The average size of the projects financed during the previous stage of financing for the FNDR (311 projects) was US\$255,000. The lowest-valued projects were those in the health sector, which averaged US\$157,000, while the highest-valued projects were for sewage systems and rural roads, which averaged US\$340,000 and US\$392,000, respectively. Of the total number of projects financed, 96% were for public works. It is worth noting that the projects submitted for financing with Bank resources are generally the largest projects financed by the FNDR. Nevertheless, the average value of the projects is expected to increase substantially under this program, given that it is oriented toward preventing the atomization of projects and promoting projects that better fit within multiyear investment programs and are more consistent with regional and local development strategies. The projects will average an estimated US\$400,000.

2. Supervision of the investments

- 3.14 Supervision of public works will be the responsibility of the respective technical unit, either directly, when the unit has the technical capacity for that purpose, or by contract with individual consultants or specialized consulting firms. In all cases, the regional control unit's non-objection to the proposed procedure will be required, and the cost of supervision, when it has been contracted out, will be recognized as part of the project financing. The COREMAs will monitor compliance with the environmental recommendations contained in the environmental impact statement (IAS) or the environmental impact assessment (EIA).

3. Transfer of resources

- 3.15 The program resources for the projects will be transferred by the central government to the regional governments within the budget framework established by the interregional allocation of resources and the budget approved by the regional council. The regional governments will, in turn, transfer these resources to the entities that will carry out the works, which will be agencies affiliated with the various ministries (technical units) or other public agencies (municipal governments). Transfers of real estate and other property acquired or built with

FNDR resources will be governed by the Constitutional Organic Law on Government and Regional Administration (Law No. 19,175).

- 3.16 The program resources will be deposited with SUBDERE (National Control Unit), which will make the corresponding transfers upon receipt of evidence that the budget allocations mentioned in the preceding paragraph have been paid out by the respective co-executors. In accordance with the budget regulations currently in effect, each co-executor, with funds from the region itself or the funds transferred to it from the central level, will cover payments for the project and subsequently will receive reimbursement from the Central Control Unit out of the resources from the financing.

4. Cost recovery mechanisms

- 3.17 For municipal projects in which the beneficiaries cannot be clearly identified, or those in which a breakdown is not justified or local legislation allow changes to be levied for such services as public lighting, urban roads, or public recreation areas, the general revenues of the municipality will be used as a cost recovery mechanism. In such cases, it must be demonstrated that the project will not generate a deficit in the current account of the municipality.
- 3.18 **For projects for which the law provides for direct charges to the beneficiaries, such as water supply, sewerage, and electric power services, the revenues from the collection of such fees, rates or other charges must cover the costs of operation, maintenance, administration and unsubsidized investment.** For the transfer of assets financed by the FNDR to government enterprises or private firms, the reimbursable contribution system allowed by law will be used. The FNDR may subsidize a proportion of the investment costs of projects that directly benefit low-income families, in which case the enterprises providing the services must reimburse the regional government for the unsubsidized part of the project.

D. Execution plan for the institutional strengthening component

- 3.19 Execution of this component will take place in the following stages: (i) dissemination of information to regional institutions of the institutional strengthening activities by SUBDERE; (ii) determination of the scope of the institutional strengthening needs in the regions; (iii) signing of an agreement between SUBDERE and the regional governments for the design and execution of institutional strengthening activities; (iv) preparation by the regional governments, with technical assistance from SUBDERE, of a multiyear program of institutional strengthening; (v) evaluation of the program by the National Investment System, which will be processed under the category of "program"; (vi) approval of the program by the regional council; and (vii) execution and monitoring of the program at the regional level. The national executing unit will provide technical assistance to the regional institutional strengthening units for the preparation of institutional

strengthening programs in the respective regions, adapting regional needs to the technical guidelines and provisions established in the guidelines for preparation of institutional strengthening programs annexed to the Operation Regulations.

- 3.20 The regional programs to be financed will be examined for eligibility and approved by the regional institutional strengthening units in accordance with the technical criteria specified in the methodological guide for the preparation and evaluation of regional programs for institutional strengthening annexed to the Operating Regulations. Once this step has been completed, the regional programs will be submitted to the SNI for socioeconomic, social, and institutional evaluation by MIDEPLAN, where they will be processed under the category of "program." Following these two stages, the programs will be sent to the regional councils for prioritization.
- 3.21 The institutional strengthening component will be financed through a budgetary allocation which will be transferred to the regional governments through SUBDERE for the design and implementation of institutional strengthening programs in each of the 13 regions. The resources will be distributed among the regions according to a formula that will take account of variables such as the institutional complexity of the regional government, the breadth of the services it administers, and the volume of investment. This formula will determine the investment cap for each region.
- 3.22 The resources for the regional programs will be transferred to the regions once they have done the following: (i) created the regional institutional strengthening unit; (ii) signed an institutional strengthening agreement with SUBDERE; (iii) established institutional strengthening goals for the services involved and their respective Management Improvement Programs; (iv) received technical approval from the regional institutional strengthening unit; and (v) received a socioeconomic recommendation from the SNI. The model agreement was revised by the Bank and the final version will be submitted during negotiation of the loan contract. It has been agreed with SUBDERE that the Bank will review the institutional strengthening programs formulated by the regional governments in order to verify the relevance of their content.
- 3.23 Formulation and monitoring of pilot experiences in the new areas of investment to be financed under the program, such as productive development, public safety, and urban renewal, will also be financed through the institutional strengthening component. Resources will be provided for an assessment of the issues and identification of the actions and investments needed to address them. These programs will coordinate investments and activities financed by both the FNDR and the sector entities and municipal governments in order to achieve the objectives established under the respective regional development strategies. MIDEPLAN will support the process of formulating these programs, developing of evaluation methodologies as products of the pilot projects. Once they have received a

recommendation from the SNI, these programs will be executed under the modality of programming agreements. In the pilot phase, three experiences will be developed, one for each thematic area, in regions interested in being identified by SUBDERE. The results of these experiences will be reviewed and if considered favorably will be communicated to the rest of the regional governments so that those that are interested can replicate them with the regional resources at their disposal. Prospective projects for the development of production that may be financed under the program will not involve credit operations.

E. Procurement of goods and services

- 3.24 For the procurement of goods and services for the construction of public works to be financed with resources from the loan, current Bank procedures will be followed; those procedures will be set out in the loan contract. Based on an analysis of the bidding procedures for works undertaken in prior stages of the Bank financing for the FNDR, as well as the experience of the Ministry of Public Works with road works contracts (since such projects are the largest projects financed by the FNDR), the following limits are recommended for international bidding under the program: contracts for public works, US\$5 million; procurement of goods, US\$350,000; and contracts with consulting firms, US\$200,000.
- 3.25 The international competitive bidding procedures for the program will be subject to an ex ante review by the Bank, which will focus specifically on the conditions for bidding, the criteria for awarding contracts, and the contracts themselves prior to signature. The bidding procedures for works and goods valued at under the aforementioned amounts will be reviewed ex post based on random samples that will make it possible to form an opinion regarding the quality of the process in the various regions for the various sectors and executing units. In the case of contracts for consulting services valued at over US\$50,000, the Bank will undertake an ex ante review of the documentation required under the terms of reference for the services and the short list of individual consultants and consulting firms and the guidelines for ranking bids. The procedures for the awarding of contracts for the program may not limit the participation of interested firms from member countries of the Bank. The UNDP will hire consulting services with program resources (see paragraph 3.3) according to the Bank rules and procedures for the selection and hiring of consulting firms and individual consultants (Annex C to the loan contract). The contracting schedule for the institutional strengthening activities and the studies is presented in Annex II-1.

F. Disbursements

- 3.26 The execution and disbursement period for the program will be five years. **As a condition precedent to the first disbursement of the loan proceeds, SUBDERE must submit to the Bank evidence that the local counterpart resources for the first year of program execution have been allocated in the public sector budget**

for the calendar year in which the loan contract is signed. The revolving fund for this operation has been established at 5% of the resources from the financing, in accordance with the general conditions of the loan contract. In order to ensure adequate liquidity as well as efficient, expeditious disbursements, resources will be transferred from the revolving fund to the regional governments against justification of payments made. This system will be governed by the Accounting Regulations annexed to the Operating Regulations of the program.

- 3.27 The executing agency will ensure that the information contained in the itemized statement of payments is properly supported by the documentation normally required by the Bank. In addition, it will retain the originals and/or copies of all contracts, orders, invoices, receipts, payment vouchers, supplier certificates, certificates of origin, and other documents that substantiate the information provided in the payment statement. This documentation must be duly identified, correctly filed, and made available for review by authorized officials of the Bank and external auditors. The Country Office, in the course of its visits, will review representative samples of the supporting documentation for disbursements against the corresponding originals or equivalents thereof.
- 3.28 Disbursements will be subject to ex ante review, in keeping with current Bank procedures. Nevertheless, considering that the program will be national in scope and will therefore finance hundreds of projects throughout the country, the option of ex post review will be left open and may be exercised by the executing agency if doing so is deemed to be in its best interests. In that event, justification for advances from the revolving fund and reimbursement of payments made will be submitted to the Bank's Country Office, accompanied by the itemized statement of payments and the record of disbursements and local contributions, and the executing agency will retain the corresponding supporting documentation. Exercise of this option is considered feasible because the executing agency has a suitable accounting and financial administration system that has already been used in the financings that Bank has provided previous to the FNDR.

G. External auditing

- 3.29 The borrower, through the executing agency, will submit to the Bank for every year of program execution the financial statements for the program audited by the Contraloría General de la República [National Accounting Office of Chile], which has been regularly auditing the projects financed by the Bank in Chile.

H. Operation and maintenance

- 3.30 Operation and maintenance of the public works financed by the program will be the responsibility of the sector service-providers, municipal governments, and public service companies. The regional control units will conduct a yearly assessment of the quality of operation and maintenance by these entities. To that end, every year

they will review a representative (geographic and sectoral) sample of the investments financed. If the respective regional control unit finds that the operation and maintenance obligations are not being fulfilled, it will notify the responsible entity, establishing a reasonable deadline (not to exceed one year) for rectification of the situation. Should the problem persist, the regional government will declare the offending entity ineligible for future FNDR financing. **Within the first quarter of each calendar year during the program execution period, the executing agency will submit a report to the Bank on maintenance of the works and equipment evaluated as part of the representative sample of the investments financed the previous year.**

I. Monitoring and evaluation of the program

- 3.31 Within 60 days of the end of each half-year of program execution, the executing agency will submit for the Bank's consideration semiannual progress reports on the status of program activities. The reports submitted at the end of each year of program execution will also include the investment plan for the following year, the financial report on the program, and information on the institutional strengthening activities and the studies and public information activities undertaken during the year, as well as those planned for the following year. For purposes of monitoring and evaluation of the results of the program, these reports will include an annual comparative analysis of the progress achieved with regard to a matrix of performance indicators mutually agreed between the Bank and the executing agency. Those indicators are presented in Annex III-2 and are part of the Operating Regulations of the program.**
- 3.32 Annually, after delivery of the semiannual progress report at the end of each year of program execution, the executing agency will review the information with the Bank to assess the progress of the program, identifying any difficulties that have arisen, and devising corrective measures.**
- 3.33 Bearing in mind the design criteria for the program, the areas on which the annual evaluations will focus will include: (i) for the investment component: progress in improving coverage of the services in the main sectors of regional investment and improved quality, where applicable; the progress made in implementing pilot projects in the areas of urban renovation, citizen security and development of production; cost recovery; operation and maintenance; works supervision; and the findings of the ex post evaluations of projects carried out by MIDEPLAN using program resources; (ii) for the institutional strengthening component: extent to which the regional governments have adopted systems for investment prioritization that reflect the priorities of the regional development strategy and the multiyear investment programs; and the progress made in the SNI efficiency and quality indicators; and (iii) for the studies component: progress in completion and dissemination of the studies.**

- 3.34 **As part of the program evaluation process, two external evaluations will be conducted—a mid-term evaluation and a final evaluation—utilizing the methodology and guidelines to be agreed by the executing agency and the Bank. The findings of the first evaluation are to be submitted to the Bank once 50% of the program resources have been committed or 30 months after the effective date of the loan contract, whichever occurs first. This evaluation will determine the degree to which program has met its goals and detect any problems so that corrective measures can be taken to ensure that the program objectives are achieved. The final evaluation, which will utilize the same content and methodology as the mid-term evaluation, is to be conducted within the six months prior to the term for disbursement of the loan, and its findings are to be submitted to the Bank together with the final disbursement request.**

IV. FEASIBILITY OF THE PROGRAM

A. Impact of the program

1. General impact

- 4.1 The program will help to improve the capacity of the regions and municipalities to efficiently allocate the investment resources over which they have autonomous decision-making authority. The Bank financing, in addition to contributing to the financing of projects that have great social impact, will promote development of the mechanisms and instruments needed to enable the country to improve efficiency in the allocation of public resources for regional investment and continue advancing gradually in the process of decentralization.
- 4.2 Specifically, the measures included in the Program to improve administration and efficiency in the allocation of the resources that the country devotes to regional development are as follows:
- (i) putting in place a revised version of the formula for interregional allocation of resources, which will lead to a more equitable and efficient distribution of FNDR resources, for example, by increasing the proportion of resources received by the regions with the highest concentrations of poor population and rewarding those regions whose investments improve the indicators used for the allocation of FNDR resources;
 - (ii) rationalizing the intraregional allocation of investments by enhancing the regional development strategies and local development plans and promoting the establishment of regional framework agreements that provide for the use of multiyear investment programming methodologies and incorporate medium- and long-range regional development objectives;
 - (iii) fostering the use of the FNDR as a mechanism for regional development that will serve, in turn, as a catalyst for resources to attract sector, public, and private investment in the regions;
 - (iv) strengthening the regional institutions with a view to improving coordination in decision-making about investment, both of FNDR resources and resources from other national sources of financing.

2. Impact of the investment component

- 4.3 The program will finance projects that will have a direct positive impact on the living conditions of low-income groups. More than 50% of the projects in the

pipeline of the Integrated Project Bank that are eligible for financing under the program are in the areas of education, health, sanitation, and rural electrification,—all sectors that directly benefit lowest-income groups. The available information indicates that more than two thirds of the beneficiaries of the investments financed by the previous programs in these sectors were families living in poverty. The program resources will enable the regions to invest in infrastructure and programs of support for the productive sectors—for example, improvement of roads and infrastructure of fishing coves. The eligibility conditions will allow the FNDR to adapt quickly to regional investment demands. The operational mechanisms and eligibility criteria for projects will make it possible for the FNDR to attain this flexibility while maintaining the necessary safeguards to assure efficient allocation of the resources.

3. Impact of the institutional strengthening component

- 4.4 Strengthening regional public institutional capabilities will help produce development strategies that are tailored to the realities of each region, with the management of financing for public investment aimed at amalgamating the development interests of the different sectors and stakeholders through a set of planning, programming, and financing instruments that will enable better coordination between the various levels of government, which in turn will open up opportunities for public participation, accountability, and control. Coordination between sectors and between the regional and municipal governments will lead to more efficient use of the financial, human, and organizational resources available in the regions. The technical assistance provided for the development of regional development strategies and multiyear investment plans will help engender a systemic vision of regional development and investment, overcoming the current situation in which the perspective of the sectors and services prevails, which leads to very low-impact, atomized investment that is not necessarily aimed at promoting regional development. Adaptation of the organizational structure and the functions of the human resources of the regional governments will generate a more clear-cut relationship between the levels and sectors that will facilitate coordination and rationalization of investments.

4. Impact of the component of studies to deepen decentralization

- 4.5 The current government has laid the foundations for deepening and strengthening the decentralization process in Chile. This process is essentially political and implies, in addition to more in-depth study of technical issues (e.g., stages and alternatives for fiscal decentralization, law on regional revenues, revision of the formulas for transfer of resources to the regions, establishment of minimum standards for basic services at the local level), the generation of a broad dialogue with society and the principal political actors on the main elements to be included in the government's decentralization agenda and its institutional and political implications (e.g., direct election of regional council members and of the executive

branch of the regional governments, transfer of powers and functions between levels of government, changes in land management).

- 4.6 The studies component will finance the necessary studies and provide a broad framework for the exchange of ideas and the consensus-building that will make it possible to gradually implement the government's decentralization agenda. During the first two years of the program, it is expected that the necessary technical and normative agreements and instruments will be established in order to step up the process of decentralization and consolidate it gradually and selectively within the current government's term of office.

B. Social and environmental impact

- 4.7 From the social and environmental standpoints, the program will have a positive impact in the communities directly affected by the projects, which will see improvements in their quality of life as a result of the construction of schools, small water supply and sewage systems, health posts, rural roads, urban roads, and others. The projects financed by the program could have moderate environmental impacts. Regulations concerning the mitigation or elimination of negative environmental impacts are provided for under the Sistema de Evaluación de Impacto Ambiental [Environmental Impact Assessment System] (SEIA), which has been operating since the previous stage. The SEIA establishes the steps to be followed and the instruments to be used in assessing the environmental impact of projects financed by the program and recommends the measures and actions needed to prevent, mitigate, and offset negative environmental impacts and risks. Article 10 of Law 19,300 on the Environment, enacted in 1994, specifies which projects must be submitted for assessment by the system and establishes whether an environmental impact statement (EIS) or an environmental impact assessment (EIA) will be required for these projects. Projects not assessed by the SEIA must nevertheless obtain sector environmental permits. The assessment of projects and issuance of an EIS or EIA is the responsibility of the regional environmental assessment councils (COREMAs), which were created and strengthened during the previous program.
- 4.8 While the program was being prepared, based on the conclusions of the meeting of the Committee on Environment and Social Impact (CESI) of 24 September 1999, the project team evaluated the level of compliance with the environmental regulations established under the SEIA. Bearing in mind this analysis, the team identified some difficulties in accessing environmental information on projects. To address this situation and establish a closer relationship between the SNI and the SEIA, as well as between the technical-economic analysis and environmental assessment, it recommended several measures, which were well received by MIDEPLAN and the CONAMAs, which committed to implementing them in their respective systems.

- 4.9 The projects financed by the FNDR benefit all members of the population equally. Nevertheless, some types of investments benefit low-income women in particular. This is the case of investments in infrastructure for primary health care administered by the municipal governments, which bring the services closer to the places in which low-income families reside, and investments in basic sanitation for these populations, which improve health conditions in housing. The social development departments of the municipal governments are responsible for identifying investment needs. In identifying the needs and seeking solutions to the problems of traditionally underserved groups, the municipal governments will be advised by the Servicio Nacional de la Mujer [National Women's Service] (SERNAM), which has offices in all regions of the country. SUBDERE will develop, through the studies component, a study aimed at harmonizing the traditional systems of government of indigenous groups with the national system. The objective is to improve the participation of indigenous communities in decision-making on matters that affect them, in particular the actions undertaken by the municipalities and regions. This process is expected to help ensure that the needs of indigenous groups are taken into account in the programming and execution of FNDR projects.

C. Gender perspective

- 4.10 To provide incentives for the formulation of projects that will benefit women in particular, both the public information campaigns and the citizen participation strategies to be developed in the regions in the framework of the institutional strengthening component will be required to incorporate issues relating to gender and domestic violence. The execution of activities in this area will be ensured through two mechanisms: (i) the methodological guide for the preparation of institutional strengthening programs in the regions will include suggestions on ways of dealing effectively with these issues; and (ii) the monitoring matrix for the component (Annex III-2) includes indicators aimed at ensuring that these issues are duly addressed. As demand for such activities increases and they are prioritized by the regional governments, the program will finance projects that benefit women—for example, investments in daycare centers, preschools, and services to prevent domestic violence and assist women who are victims.

D. Feasibility of the program

1. Feasibility of the institutional strengthening component

- 4.11 This component is aimed at endowing the regional governments with the technical and managerial capacity needed to achieve the objectives of the program, in particular with regard to making regional investment more efficient. The backbone of the component is the creation and improvement of instruments that will help technical personnel in the regional governments program investments in accordance with regional strategies and plans, ensure streamlined and technically sustainable

processing of investment projects, put in place more global and comprehensive financing instruments such as intersectoral and territorial agreements, and optimize the budget performance through coordination of the timetables for processing and allocation of resources and rigorous monitoring of investments.

- 4.12 Given that many of the instruments are new, either because they have been introduced recently or they will be introduced in the framework of the program, the institutional and organizational conditions necessary for their efficient use will be generated. The move toward greater efficiency sought by the program will be ensured through mechanisms such as an updated description of functions, reclassification of human resources, and use of a system of incentives to promote efficient management of regional investment. In addition, the program reflects the government's concern with fostering a public administration that is accountable and financing the dissemination of information that will enable informed participation and control of regional administration by the citizenship.

2. Technical and socioeconomic feasibility of the investments

a. The National Investment System (SNI) and analysis of individual projects

- 4.13 The operational mechanisms for the preparation, evaluation, and execution of projects will be those developed by the SNI, which has at its disposal: (i) methodological manuals for the preparation and analysis of public projects; (ii) an Integrated Project Bank (BIP) of national scope, with a pipeline of projects at various stages of development; (iii) national and regional entities to ensure interinstitutional coordination; and (iv) a critical mass of professionals trained in areas related to the project cycle.
- 4.14 SNI assumes responsibility for carrying out the ex ante evaluation of all projects and determining their eligibility based on technical aspects of project design and the socioeconomic feasibility of each project, utilizing the methodologies established by MIDEPLAN for each sector. Previous evaluations of the SNI and of the project cycle have concluded that the system works well as a technical filter that produces a portfolio of projects that can be executed satisfactorily and that fulfill their objectives. Each of the investments financed is thus justified economically.
- 4.15 The FNDR portfolio of projects has not changed greatly in composition from the previous stage, and the methodology used to analyze a sample of projects was therefore essentially the same as the prior methodology. A sample of 30 representative projects was selected randomly from a project typology by size and sector that reflected the composition of the portfolio of projects under way in 1998 (1999 was not chosen because it was a period of fiscal adjustment). Additionally, a sample of projects eligible for financing by the FNDR in 2001 was examined in two strategic sectors whose participation in the FNDR portfolio has grown steadily in

recent years: the education sector, where the needs arising from the extension of the school day have multiplied the demands on the FNDR, and the productive development sector, an area of special interest for the regional governments. Based on the analysis of these projects, technical criteria were recommended to improve the regions' prioritization of investments in those two sectors.

- 4.16 Analysis of the sample showed that the methodologies used for economic analysis are consistent with the methodologies accepted by the Bank for each sector, as is reflected in the following table:

Table IV-1
Principal sectors and methodologies of economic analysis
(used by the SNI)

Sector	Methodology	Indicators	Share (%) of the 1998 portfolio
Education	cost-efficiency	cost per student	27%
Health	cost-efficiency	annual equivalent cost per medical visit and per person	9%
Drinking water	cost-benefit	social NPV	4%
		social IRR	
Sewerage	cost-efficiency	cost per beneficiary	4%
Rural roads	cost-benefit	social NPV	5%
		social IRR	
Urban roads	cost-benefit	social NPV	5%
		social IRR	
Paving	cost-benefit	Cost per m ²	
		m ² road per beneficiary	
Electrification	cost-benefit	social NPV	14%
		private NPV	
Other	methodologies approved by MIDEPLAN	See MIDEPLAN manual	32%
Total			100%

NPV: net present value IRR: internal rate of return

b. Quality and efficiency of the process and rules of the game for the project cycle

- 4.17 Following the creation of the regional governments, responsibility for technical and economic analysis of the projects submitted to the SNI was delegated to the regional planning and coordination secretariats (SERPLACs) in the regions. As regional and local actors have become more familiar with the instruments of the SNI, the number of projects submitted to the SERPLAC has grown substantially. Currently, the portfolio of projects at different stages of preparation in the BIP pipeline is much larger than the number of projects that pass the economic and technical evaluation required by the SNI. The analysis of the sector personnel of the SERPLACs is quite rigorous and serves as an effective filter of quality, as well as a significant source of value added to the projects submitted—despite the enormous volume of projects evaluated every year in each region and the strong pressure to approve projects resulting from the municipalities' chronic lack of resources for

investment and the perverse incentives that arise from a system financed totally through transfers from the central government.

- 4.18 A comparison of the results of evaluations conducted in 1998 with those from evaluations of projects submitted for 2001 shows that the percentage of projects receiving a satisfactory assessment has decreased considerably, while the percentage of projects that were found to have incomplete information or that failed to meet the technical and economic criteria has doubled. These findings, which are summarized in the table below, point to two important conclusions. On one hand, they are evidence that the SERPLACs serve as an effective filter that ensures the feasibility and quality of the projects that pass the evaluation. On the other hand, the figures point to the existence of problems with regard to the quality and degree of maturity of the projects being submitted to the system. This situation undermines the logic and discipline of the project cycle and results in inefficient use of the time of the SERPLACs, which are obliged to evaluate an enormous number of "green" or incomplete projects when their time could be better spent in trying to improve the procedures and instruments for planning and programming investments.

Table IV-2

Classification (%) of projects for execution evaluated by the SNI

	2001 projects		1998 projects	
	Number (%)	Amount (%)	Number (%)	Amount (%)
Result of the evaluation				
Recommended	20.7	9.1	59.3	47.1
Information incomplete	40.1	38.6	26.0	33.8
Not recommended	39.2	52.3	14.6	17.4
Presidential priority	0.0	0.0	0.02	1.7
Total	100.0	100.0	100.0	100.0

- 4.19 The SNI project cycle comprises several stages: profile, prefeasibility, feasibility, design, and execution, which necessarily means that the project preparation process takes more than one year. However, the existing framework of incentives encourages the municipalities and other project applicants to try to skip stages, and they frequently jump from profile to execution while simultaneously developing the designs, which are the responsibility of the technical unit that submits the project. In practice, this means that a good number of the projects with approved profiles do not yet have designs, and a significant proportion of the designs evaluated for the execution phase are incomplete and must be completed by the responsible technical unit and reevaluated yearly by the SERPLAC. This process, though it does add technical value to the project, does not provide any incentives to improve the technical quality and level of maturity of the projects at the time they enter the SNI.
- 4.20 The varying degrees of maturity of the projects submitted to the SNI reflect a distortion of the "rules of the game" of the project cycle, as the current logic of the system provides an incentive for the presentation of new projects for approval each

year, which leads to the submission of faulty or incomplete designs. To rectify this situation and ensure that the SNI operates more efficiently and rationally, the proposed program incorporates the following lines of action: (i) technical assistance to the entities that generate projects in order to improve the quality of the projects submitted to the SNI; (ii) stricter control of the project submission process between the preinvestment and design stages in order to ensure that projects are submitted by the deadlines and with all the background information necessary for their evaluation, thus reducing the proportion of projects that do not receive approval; (iii) introduction of measures to assure that projects are executed in accordance with the objectives, designs, and costs on the basis of which they were recommended in the evaluation and minimize cost overruns due to expansions in the scope of works and contingencies; and (iv) development of an ex post evaluation system for projects during execution, which will permit monitoring of compliance with the objectives and designs approved ex ante, thereby reducing the problems of cost overruns.

c. Strengthening of investment programming and project prioritization

- 4.21 Not only is the number of projects at varying stages of development much larger than the number of projects evaluated as satisfactory, but the value of those projects is equal to several times the amount of FNDR resources available for each region. Having a portfolio of projects that is much larger than the capacity for investment is positive in that it is possible to prioritize the projects that will have the highest impact or that will yield the greatest synergy in terms of the development of the regions.
- 4.22 There are significant deficiencies in the capacity of regional actors to prioritize projects. Some sectors and some SERPLACs develop criteria for the prioritization of projects. However, these criteria are not applied at the regional level, as result of which both the regional governors and the regional councils face strong pressure to distribute allocations for projects evaluated as satisfactory equitably among the municipalities. Prioritization and allocation of projects to be financed is a responsibility of the regional governments, and it is therefore necessary to build their technical capacity so that, under the leadership of the regional governor, they can prioritize the portfolio of projects to be submitted to the regional council for approval.
- 4.23 Specifically, the operation proposes to address this challenge by strengthening planning instruments, local develop plans at the municipal level, and regional development strategies at the regional level; translating these plans into multiyear investment programs; and introducing instruments and clear criteria for prioritizing the portfolio of projects under the responsibility of the regional government. The aim is to ensure that the regional councils and the principal regional actors that present projects have the information necessary to advance toward a strategic

multiyear vision of regional investment that will make it possible to assimilate the commitments made with regard to projects under way and their implications in terms of the resources available for new projects. To that end, special attention will be paid to regional and multiyear programming of investments.

3. Institutional and financial feasibility

- 4.24 The program is considered institutionally feasible for the following reasons, among others:
- (i) A good body of experience has been accumulated in the execution of the three previous programs, especially with regard to the formulation and analysis of projects by the National Investment System (SNI) of MIDEPLAN and the timely execution, monitoring, and supervision of the overall execution of the operations by SUBDERE, which possesses the technical and organizational capacity required for those purposes, at both the national and regional levels.
 - (ii) Chile has a process of administrative decentralization and deconcentration under way, based on a new institutional structure that was put in place and has been developing gradually but steadily since April 1993.
 - (iii) The country's new President has established clear goals and guidelines for moving forward with the process of decentralization and deconcentration of public investment during the period 2000-2006 and ensuring proper monitoring, under the principle that it is very important to expand and intensify citizen participation in decision-making, management, and control of public investment processes in order to make them more efficient and relevant to the citizenry. Chile's main political parties have no objection to the President's proposal, which creates a very favorable atmosphere for their acceptance.
 - (iv) The operation was designed with a strategic and synergic consistency among its three components, which will generate a positive internal dynamic such that the institutional strengthening and studies components will support the qualitative changes sought by the investment component.
- 4.25 The financial viability of the program is founded on the assurances of the Ministry of Finance that it will make the contributions of local counterpart resources, which have been provided for in the government budget for 2001, and the country's acknowledged strict fiscal management. Moreover, in the three previous programs there were never any problems in the timeliness of the local counterpart contributions; on the contrary, depending on the fiscal situation in the country, on some occasions the executing agency paid those contributions earlier than expected.

E. Impact on low-income groups

- 4.26 Analysis of the portfolio of projects financed by the FNDR during the last 10 years indicates that 52% of the investments have been concentrated in sectors that automatically qualify as poverty-targeted (primary education and health care, drinking water supply and sanitation in marginal areas). The experience of the earlier stages with regard to eligible sectors and types of works indicates that most of the investments financed have been concentrated in sectors whose beneficiaries are typically the most vulnerable groups. This has been true particularly of the projects financed by the FNDR-IDB, given the emphasis in the previous stage on financing for basic social infrastructure. Indeed, an analysis of the projects financed between 1995 and 1998 reveals that two thirds (65.5%) of the projects financed were concentrated in the aforementioned sectors, which automatically qualify as poverty-targeted.
- 4.27 However, as the composition of the portfolio of projects included in the program may vary, reflecting the demand from the regions, and the proposed operation will finance all FNDR-eligible sectors, it is not certain that more than half of the direct beneficiaries will be poor. This operation therefore does not qualify as a poverty-targeted investment (PTI).
- 4.28 Nonetheless, given that the majority of the investments will be in basic social infrastructure in communities with the lowest levels of socioeconomic development and whose beneficiaries are generally low-income, this operation qualifies as a social equity enhancing program, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). The project does not specify explicit performance indicators to measure poverty reduction and social equity enhancement.

F. Risks

- 4.29 **The regions' ability to utilize the various investment planning, prioritization, and programming instruments.** Prior experience in the execution of projects with the FNDR has shown that it has a proven institutional and operational base to enable it to assure expeditious execution of the program, in particular the investment component. However, in order to step up the decentralization process and increase the transfer of resources and autonomy to the regional governments it will be necessary to strengthen the technical and institutional capabilities of the regional governments and introduce new managerial instruments, such as strategic planning in the prioritization of investments, multiyear investment programs, and programming agreements. These instruments are being developed and need to be introduced into investment management practices and processes and appropriated by the regional governments in order to overcome the institutional inertia that is the legacy of a long tradition of centralism and little autonomy for local government. This challenge will be addressed through the activities included in the institutional

strengthening component and through the regions' gradual adoption and use of the aforementioned instruments as the investment component proceeds.

- 4.30 **Impact of the institutional strengthening component.** Although the prior stage of support for the FNDR included resources for institutional strengthening of the regional governments, the decision by the Ministry of Finance to reduce, as of 1996, the counterpart resources allocated to this component proved detrimental to the institutional strengthening activities. However, the objectives of the component were not adjusted to allow for the decrease in resources, as a result of which the activities undertaken were limited mainly to training courses. Generally speaking, these courses did not have any significant impact in terms of furthering the original objectives of institutional strengthening and development. In view of this situation, the following measures have been added to the operation to ensure that this component has the desired impact on regional institutional development and improvement of the efficiency and management of regional investment: (i) the institutional strengthening activities will not be limited to training but will include the development and use of instruments and mechanisms to enhance planning, programming, and prioritization of the regional investment portfolio; (ii) institutional strengthening units will be created within SUBDERE and within the regional governments, which will ensure that the activities carried out under the component are appropriated and institutionalized, especially in the regions; and (iii) the Bank and SUBDERE have agreed on a matrix of outcome indicators that will enable the Bank to closely monitor the extent to which the planned activities are being carried out and the objectives are being met.

PROCUREMENT SCHEDULE

PRINCIPAL ACQUISITIONS	FINANCING (thousands US\$)			PROCUREMENT METHOD	
	IDB	LOCAL	TOTAL		
REGIONAL STRENGTHENING COMPONENT					
LEVEL					
Services	-	322	322	LCB	I/2000
Monitoring regional government administration	-	286	286	LCB	II/2000
Development of instruments for informing the public on regional administration	-	286	286	LCB	II/2000
MUNICIPAL LEVEL					
Services	-	600	600	13 LCP	I/2000
Development of planning instruments and mechanisms: investment agreements	-	600	600	13 LCP	I/2000
Training of training in planning and management	-	928	928	13 LCP	I/2000
Training	-	928	928	13 LCP	I/2000
Assessment for design and implementation of information system	-	470	470	13 LCP	II/2000
Optimization of organizational structures	-	930	930	13 LCP	I/2000
Regional investment plans	-	468	468	13 LCP	II/2000
Development of Management Information System (SIGRE)	-	715	715	LCB	I/2000
Geographic Information System (GIS)	-	3,600	3,600	LCB	II/2000
Information system for monitoring of municipal administration	-	875	875	LCB	I/2000
MUNICIPAL GOVERNMENT					
Decentralization policy area	353	-	353	3 LCP	I/2000
Administrative decentralization area	482	-	482	3 LCP	I/2000
Technical decentralization area	326	-	326	4 LCP	I/2000
Management area	173	-	173	2 LCP	I/2000
Process of decentralization process	343	-	343	2 LCP	I/2000
Design and implementation of a public accountability system	323	-	323	2 LCP	I/2000
EVALUATION OF THE PROGRAM					
Program evaluation	125	-	125	LCP	I/2000
Program evaluation	125	-	125	LCP	I/2000
Preparation of proposals	2,250	9,190	11,440		
Competitive bidding					

**PROGRAM FOR IMPROVEMENT OF THE EFFICIENCY AND MANAGEMENT OF REGIONAL INVESTMENT
CHILE-0161
MATRIX OF MONITORING INDICATORS**

OBJECTIVE	ACTIVITY	INDICATOR	1	2	3
INVESTMENT COMPONENT					
efficiency of regional	1.1.1	Adapt the interregional distribution of resources to the needs of the regions	New indicators incorporated into the formula being used (2002 budget)		
	1.1.2	Link regional investments to the regional development strategy, multiyear plans and other planning instruments	50% of investments linked to the RDS 70% of investments linked to the RDS		
	1.1.3	Promote a long-range perspective on regional investment	13 regions have multiyear investment programs		
			No more than 10% of resources devoted to investment in infrastructure rehabilitation		
			At least 30% of regional investment resources allocated on a multiyear basis		
			Basic investment statistics (EBI) sheet includes field indicating project consistency with regional development strategy and multiyear plans (2003 budget)		
	1.1.4	Promote coordination between sectors and municipalities on regional investment	At least 40% of investment resources committed in the framework of programming agreements		
quality of projects	1.2.1	MIDEPLAN provides technical assistance to improve project preparation	Percentage of projects approved when first submitted (15% in year 1; 25% in year 2; 35% in year 3; 45% in year 4; 55% in year 5)		
	1.2.2	MIDEPLAN and SUBDERE optimize compliance with SNI rules and procedures	Two new indicators incorporated into efficiency-based formula for resource distribution: (i) quality of project portfolio; and (ii) size of portfolio with respect to budget.		

OBJECTIVE	ACTIVITY	INDICATOR	1	2	3
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INSTITUTIONAL STRENGTHENING COMPONENT
A. CENTRAL LEVEL

onal administration	2.1.1	Design and implementation of a system for monitoring and evaluation of regional government administration (2nd-generation SIGRE)	SIGRE includes information on all 13 regions and is accessible to users			
sparency in regional on	2.2.1	Design and launch a mass communication campaign on the results of FNDR management	Campaign under way			
	2.2.2	Proposal for citizen participation strategy	Strategy agreed to by all 13 regions			
	2.2.3	Evaluation of regional campaigns from the perspective of citizens	Evaluations concluded in all 13 regions			
information on social activities and programs the participation of women deconcentrated agencies	2.3.1	Design and implementation of an information campaign	Campaign conducted in all 13 regions			
capacity to provide stance to the regions	2.4.1	Systematization of experiences in the use of planning and investment instruments	Document on experiences completed			
	2.4.2	Proposals for an incentive system for efficiency in regional management	Proposal disseminated in all 13 regions			
	2.4.3	Methodological guide for the integration of development plans	Guide distributed and disseminated in all 13 regions			
	2.4.4	Technical assistance for the regions for the management of regional investment	Work plans disseminated in all 13 regions			
	2.4.5	Guidelines for approval of cost increases and inspection of works	Guidelines prepared			
	2.4.6	Evaluation of the institutional strengthening component according to results in the regions	Preparation of methodologies and base line Mid-term evaluation Final evaluation			
ethodologies for investment ning and ranking	2.5.1	Development and/or updating of methodological instruments for conducting studies and prospective analyses, assessing the internal and external consistency of strategic initiatives, and incorporating a territorial dimension in regional plans and strategies	Methodologies reformulated and applied in 13 regions			
	2.5.2	Development of methodologies for technical ranking of investments	Design and dissemination of the methodologies in all 13 regions			

OBJECTIVE			ACTIVITY			INDICATOR		
national information systems, information to the national system,	technical assistance for institutions in strategic planning and planning instruments	2.6.1	Support for the design and dissemination of regional information systems linked to INFOPAIS	All information modules developed in the 13 regions				
		2.6.2	Adaptation to the needs of direct users and accessibility for indirect users, especially women	New set of indicators incorporated into the systems in both statistical and geo-referenced formats				
		2.6.3	Development of statistical, documentary, and geographic information modules	Have the entire system for the collection, processing, and uploading of information, in such a way that it is reliable and timely				
		2.7.1	Development of a system for monitoring and evaluation of regional development strategies, multiyear plans, and complementary planning instruments	All 13 regions incorporated into the monitoring and evaluation system				
national experiences in investment to address such as urban renewal, development, and citizen	regional capacity for the evaluation, and of basic studies, and projects	2.7.2	Improvement of investment portfolios in poor municipalities not included in other support programs	Portfolio of projects consistent with local development plans in 20 poor municipalities (five each year)				
		2.8.1	Support for three regions selected to develop integrated investment programs	Programming agreements signed for execution of the integrated programs covering the three issues				
		2.8.2	Dissemination of the pilot projects in the remaining regions	Workshops held and supporting materials distributed for dissemination of the pilot projects in all the regions				
		2.9.1	Improvement of methodologies and/or development of new methodologies for the formulation of programs and projects	Eight new methodologies developed				
regional capacity to investments in the framework of the Investment System and with private investment	regional training for authorities, officials, and civil society leaders in matters related to development and analysis of networks and other means of linking programs and projects and in multiyear investment programming	2.10.1	Development of studies and formulation of methodologies for analyzing the complementarity and articulation between public and private projects to support decision-making by regional governments	Development and application of the methodology in 13 regions				
		2.10.2	Regional training for authorities, officials, and civil society leaders in matters related to development and analysis of networks and other means of linking programs and projects and in multiyear investment programming	13 regions submit annually programmed investments with clear linkages between different regional investment entities				
		2.11.1	Development of a system of supervision that will permit monitoring and evaluation of the process of technical and economic analysis of investment initiatives in order to identify the need for training, methodological improvements and/or developments, and deviations in the application of established SNI standards and procedures	Permanent system for supervision of technical-economic analysis operating in all 13 regions				
		2.12.1	Preparation of a methodological guide for ex post evaluation of public investment projects	Application of the methodological guide in education, health, road construction, and other sectors				
system for ex post of public investment		2.12.2	Development of project monitoring information systems for the preinvestment and investment phases	Implementation of simple ex post evaluation (project completion report) for selected sectors				

OBJECTIVE	ACTIVITY	INDICATOR	1	2	3
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B. REGIONAL LEVEL

Instruments and mechanisms for planning and management of investment	2.13.1	Implementation of framework agreements for investment through programming agreements and local agreements (region-municipalities)	13 framework agreements for investment signed			
			13 local programming agreements signed, at least one per region			
Planning and management systems	2.14.1	Implementation of a system of incentives to encourage quality and efficiency in regional management through exchange of successful innovative management approaches, dissemination of cooperative experiences and other means	13 incentive systems in place (at least one per region)			
	2.14.2	Development of criteria for technical ranking of investments by sector	Criteria approved and in use in all 13 regions			
	2.14.3	Review and update of existing data bases and implementation of information systems for decision-making	Programs in all 13 regions approved			
			Information systems implemented in all 13 regions			
Information and dissemination of regional administration	2.15.1	Adjustment and implementation of mass public information campaigns	Design approved and campaigns implemented in all 13 regions			
	2.15.2	Implementation of citizen participation mechanisms	Mechanisms implemented in all 13 regions			

STUDY COMPONENT

Political decentralization with a growing forms of e and/or participatory strengthening the legitimacy of authorities	3.1.1	Dissemination of proposals for the decentralization policy	Communication program developed			
			Dissemination of government decentralization commitments carried out			
	3.1.2	Design of mechanisms of citizen participation and representation	Mechanism designed and validated			
	3.1.3	Studies for strengthening democracy in the following areas: scenarios and systems for the election of regional authorities and system for government and management of metropolitan areas	Proposal for new scenarios and systems for regional authorities disseminated			
			Proposal for system of government and administration of metropolitan areas developed			
	3.1.4	Design and validation of a methodology for public accounting and transparency in management	Public accounting methodology disseminated			

OBJECTIVE		ACTIVITY	INDICATOR	1	2	3
Distribution of fields of functions and powers at the various levels of government administration	3.2.1	Macro study of the functions and powers of the various levels of government and dissemination of the results thereof	Identification and dissemination of three strategic areas in need of improvement			
	3.2.2	Three applied studies on functions and areas of competence for macrosectors identified in the framework study	Proposal for sector A disseminated			
	Proposal for sector B disseminated					
	Proposal for sector C disseminated					
	3.2.3	Studies on powers of regional and municipal governments	Proposal for regional government powers disseminated			
			Proposal for municipal government powers disseminated			
Financial decentralization with a view to consolidating a more equitable financial system	3.3.1	Studies on municipal finance, including alternatives for municipal borrowings and fiscal management and local taxes	Proposal for alternatives for municipal borrowings disseminated			
			Proposal for fiscal management and local taxes disseminated			
	3.3.2	Studies on transfers to municipalities for education and health	Proposal for redesign of transfers to municipalities for education and health disseminated			
	3.3.3	Studies on regional equity and finance	Proposal for regional equity and income disseminated			
Integration of less integrated regions of the country with a view to conditions for their economic integration	3.4.1	Study on degree of integration of Easter Island	Proposal for integration of Easter Island disseminated			
	3.4.2	Study on degree of integration of Juan Fernández Island	Proposal for integration of Juan Fernández Island disseminated			
	3.4.3	Study on degree of integration of border areas	Proposal for integration of border areas disseminated			
	3.4.4	Study on degree of integration of extremely remote areas	Proposal for integration of extremely remote areas disseminated			
Political and administrative districting of the country with a view to more balanced economic development of regions and municipalities	3.5.1	Study on political and administrative districting of the country	Proposal on political and administrative districting of country prepared			
Finalization of the decentralization process	3.6.1	Design of a system to evaluate decentralization	System designed and implemented			

PROPOSED RESOLUTION

CHILE. LOAN /OC-CH TO THE REPUBLIC OF CHILE
Program to Improve the Efficiency and Management of Regional Investment

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 a Program to Improve the Efficiency and Management of Regional Investment. Such financing will be for the amount of up to three hundred million dollars of the United States of America (US\$300.000.000), which are part of the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.