

CHILE

HERITAGE PRESERVATION PROGRAM

(CH-L1032)

LOAN PROPOSAL

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APPENDICES

Proposed resolution

Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of loans in execution	http://idbdocs/wsdocs/getDocument.aspx?DOCNUM=1181279
Tentative lending program	http://opsgs1/ABSPRJ/tentativelending.ASP?S=CH&L=SP
Annex II: Local Currency Financing	http://idbdocs/wsdocs/getDocument.aspx?DOCNUM=1181752
Information available in the ICF/FMM files	http://idbdocs/wsdocs/getDocument.aspx?DOCNUM=1186438

ABBREVIATIONS

CCLIP	Conditional credit line for investment projects
CFAA	Country Financial Accountability Assessment
CGR	Office of the Comptroller General of the Republic
CMN	Council on National Monuments
CNCA	National Council for Culture and the Arts
CONADI	Corporación Nacional Indígena [National Indigenous Development Agency]
CONAMA	National Commission on the Environment
CORE	Regional Development Council
CORFO	Corporación de Fomento de la Producción [Chilean Economic Development Agency]
CPAR	Country Procurement Assessment Report
DA-MOP	Dirección de Arquitectura [Architecture Division] of the Ministry of Public Works
DEPA	Departamento de Patrimonio Arquitectónico [Architectural Heritage Department] of the Architecture Division of the Ministry of Public Works
DIBAM	Dirección de Bibliotecas, Archivos y Museos [Library, Archive and Museum Division]
DIPRES	Dirección de Presupuesto [Budget Division] of the Ministry of Finance
DRA	Regional Architecture Division
FNDCA	National Fund for Cultural Development and the Arts
FNDR	National Fund for Regional Development
FOSIS	Solidarity and Social Investment Fund
IPCI	Inventario del Patrimonio Cultural Inmueble [Inventory of immovable cultural heritage]
LCF	Local Currency Facility
MIDEPLAN	Ministry of Planning and Cooperation
MINVU	Ministry of Housing and Urban Development
MRP	Mesa Regional del Programa [Regional Program Committee]
PCU	Program coordination unit
PDL	Performance-driven loan
POG	Program operating guidelines
PROPIR	Public Program for Regional Investment
RMN	National Monument Registry
SEIA	Environmental Impact Assessment System
SIGFE	Sistema de Información para la Gestión Financiera del Estado [State Financial Management Information System]
SNI	National Investment System
SUBDERE	Subsecretaría de Desarrollo Regional y Administrativo [Office of the Deputy Secretary for Regional and Administrative Development]
UNESCO	United Nations Education, Scientific and Cultural Organization

PROJECT SUMMARY

CHILE HERITAGE PRESERVATION PROGRAM (CH-L1032)

Financial Terms and Conditions ¹				
This is the fourth individual operation being financed under the Conditional Credit (CCLIP) line (CH-X1001) See paragraph 1.22. Borrower: Republic of Chile			Amortization period:	10 years
Guarantor: n/a			Grace period:	5 years
Executing agency: Subsecretariat of Regional and Administrative Development (SUBDERE)			Disbursement period:	5 years
Source	Amount (US\$ millions)	%	Interest rate:	Variable
IDB (Ordinary Capital)	80	80	Inspection and supervision:	0%
Local	20	20	Credit fee:	0.25%
Total	100	100	Currency:	U.S. dollars from the Single Currency Facility
			Conversion to Chilean pesos:	Local Currency Facility (LCF)
Project at a glance				
<p>Project objective: Protect and restore immovable cultural assets (buildings, urban areas, and sites) of national or regional priority that have been, or are being, declared national monuments in order to generate socioeconomic benefits that contribute to sustainable development.</p> <p>Project description: The program will be supported by a performance-driven loan to finance activities for: (a) incorporating, with the participation of regional governments, cultural protection and restoration as part of the regional development process; (b) protecting and restoring immovable cultural assets that contribute to socioeconomic development through investment and other actions that protect them, permit their use in cultural, social, and economic activities that are compatible with their preservation; and implementing management mechanisms to ensure their sustainability; and (c) promoting community awareness and appreciation of the country's cultural heritage and program efforts to restore cultural assets.</p> <p>Special contractual conditions: As eligibility conditions for disbursement of the loan: (a) SUBDERE and DA-MOP must have entered into an agreement to execute the program (see paragraph 3.1); and (b) the program operating guidelines must be in effect (see paragraph 3.3). As a condition precedent to the first disbursement of the performance-driven loan, an independent consulting firm must have been hired to carry out the performance evaluation (see paragraph 3.16).</p> <p>Exceptions to Bank policies: A waiver is being requested in respect of the currency availability and substitution clause if the Bank's access to the local currency should be interrupted, as indicated in paragraph 3.15 of the Local Currency Facility (LCF) operational framework (document GN-2365-2) (paragraph 3.26 and section 3 of Annex II).</p> <p>Other financial conditions: To broaden the borrower's financing options, conversion of local currency disbursements and outstanding loan balances will be subject to two financial conditions in addition to those in the LCF: (i) flexible amortization profiles for local currency disbursements and outstanding loan balances; and (ii) price based on the effective cost of funding to the Bank should the latter raise the financing through a bond issue (paragraph 3.26 and sections 2(a) and 2(b) of Annex II).</p>				
<div style="display: flex; justify-content: space-between;"> Project consistent with country strategy: Yes [X] No [] </div> <div style="display: flex; justify-content: space-between;"> Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount [] </div> <p>Verified by CESI on: 19 October 2007</p> <p>Procurement: CHILE-COMPRA will be used.</p>				
<p>¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*</p> <p>* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.</p>				

I. BACKGROUND

A. Introduction

- 1.1 For over 20 years Chile has experienced remarkable economic and social development with annual economic growth rates of more than 5% during most of this period. Chile's economic growth model is based extensively on natural resources, particularly mining in the north, forestry and fishing in the south, and agriculture in the central area. Industrial development and services are highly concentrated in the metropolitan areas and the main cities, where most of the population lives.
- 1.2 To bring more assets into the country's social and economic development process, the national government is promoting efforts to enhance historical and cultural heritage sites in the regions. To this end, it is interested in investing public resources in projects to protect and restore heritage sites that have been or should be declared national monuments. Such sites must meet the investment criteria of the National Investment System (SNI), be priorities for regional governments, and be sustainably managed.

B. Heritage and regional development

- 1.3 Chile has a rich and diverse cultural and historical heritage, largely untapped, that can make a significant contribution to its social and economic development. The Ministry of Public Works Architecture Division (DA-MOP) has taken an inventory of cultural heritage sites (IPCI), in all regions of the country, and identified more than 7,000 sites of heritage value. Of these sites, 853 (not including public monuments) have been declared national monuments by the Council on National Monuments (CMN). Individuals, civil society organizations, and government agencies propose to the CMN for entry in the National Monument Register (RMN) sites that are considered to be of historical, artistic, cultural, scientific, or natural value. There is a consensus in Chile that as a result of this procedure, which is more reactive than proactive, not all heritage sites of national importance are currently in the Register. Indeed, many sites that should be there have not yet been proposed to the CMN.
- 1.4 The National Monument Register includes the following categories of monuments:
 - a. *Historic Monuments*: movable and immovable objects of historical and/or artistic significance, and includes places, ruins, buildings, and artifacts.
 - b. *Typical Areas*: groups of urban or rural buildings of urban, scenic, or environmental significance, many of which are in the vicinity of historic monuments.
 - c. *Nature Sanctuaries*: land or marine areas whose conservation is of interest to science or the State, as it has species, natural formations or assets of zoological, paleontological, geological, botanical, or ecological significance.

- d. *Archeological Monuments*: objects, places, ruins, or deposits with remains of human settlement that exist in an archeological context, or say, are not being used by a living, functioning society.
 - e. *Paleontological Monuments*: fossilized remains of organic beings, including the petrified traces left by such beings.
 - f. *Public Monuments*: commemorative assets in public areas that may be statues, fountains, plaques, inscriptions, etc. intended to perpetuate the memory of important figures, institutions, facts, phenomena, or eras.
- 1.5 Listed in the CMN National Monument Register are assets in all the country's regions (see Table I.1 and Figure I.1). Five heritage sites have been added to the UNESCO World Heritage List and CMN has identified 17 others as potential candidates.

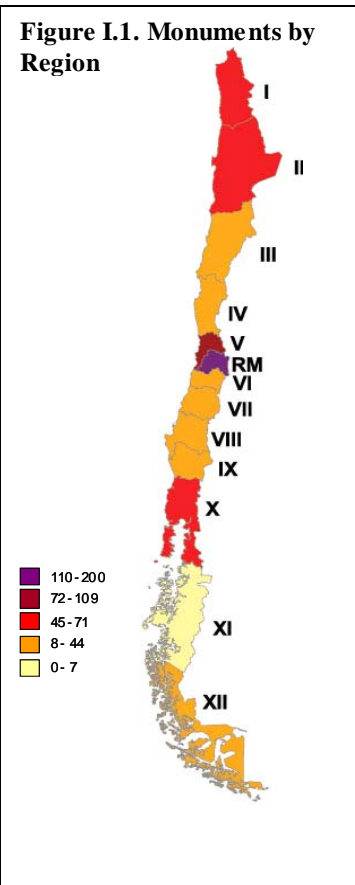
Table I.1: 2007 Sites declared national monuments by region

Region	Total	Historical Monuments	Typical Areas	Nature Sanctuaries
I. Tarapacá	76	69	4	3
II. Antofagasta	63	55	7	1
III. Atacama	24	22	1	1
IV. Coquimbo	34	30	3	1
V. Valparaíso	138	108	17	13
VI. Libert. Gral. Bernardo O'Higgins	36	27	8	1
VII. Maule	51	37	8	6
VIII. Biobío	33	29	1	3
IX. Araucanía	41	41	0	0
X. Los Lagos	72	62	6	4
XI. Aisén del Gral. Carlos Ibáñez del Campo	6	3	1	2
XII. Magallanes and the Chilean Antarctica	30	28	2	0
Santiago Metropolitan Region	249	216	28	5
Country total	853	727	86	40

Source: Council on National Monuments, CMN

Note: This table includes historic, archeological and paleontological sites declared monuments prior to 1970. Since then, archeological, paleontological, and anthropo-archeological sites may only become national monuments by the passage of legislation without the need to be declared national monuments (Article 21 of Law 17,288.)

1.6 There is a growing awareness in Chile about the potential contribution that its heritage, particularly its immovable heritage, can make to regional development. These assets have a value that stems from their economic and social potential to create a flow of services and resources once they are put to use. Some assets, like immovable heritage in downtown areas, have real estate use value, as they could potentially be the site of productive activities and services or headquarters for public services. Others, such as historical monuments, typical areas, nature sanctuaries, and archeological and paleontological monuments, are valuable as tourist attractions with the potential to draw visitors and spur the development of local service and hotel industries. Some assets like historical and archeological monuments, temples, churches, cemeteries, and community meeting sites¹ are also valuable for civic education and training, and for creating regional identity and social cohesion.



1.7 The many ways of promoting heritage assets' value offers an opportunity to achieve sustainable long-term investment in its enhancement. Each asset listed is important to a different stakeholder: real estate investors are interested in its use value, tour operators in its value as an attraction to visitors, the community in its spiritual and heritage value, and the government in its educational and cultural value. The Chilean government hopes to profit from this situation by structuring financial and institutional arrangements that guarantee the long-term sustainability of national heritage enhancement in its regions.

1.8 Management of immovable heritage in Chile is governed by different laws and regulations and is the responsibility of several government agencies that do little to coordinate their efforts. There are two bodies of laws that regulate immovable heritage determination and protection. The National Monuments Act (Law 17,288) regulates the CMN's responsibilities and provides the definitions of heritage found in paragraph 1.4. Article 60 (Statutory Decree No. 458 of the Ministry of Housing and Urban Development) of the Construction and Urban Development Act and General Ordinance, which empowers the Communal Regulating Plan—an

¹ Many heritage assets have the capacity to generate several kinds of economic flows. For instance, a heritage building in an historic center that is used for shops and offices generates an income stream, is a tourist attraction, retains its educational value as a monument to an era of the city's development and architectural style, and has heritage value, making it a legacy for future generations.

instrument of territorial planning (to determine historic preservation immovable properties and areas). All historic monuments and typical areas listed on the RMN are classified as such in the Regulating Plan. This planning instrument, however, may also declare historic preservation immovable properties and areas not on the RMN, thereby creating a parallel and sometimes overlapping protection system. In addition to these protection categories, much of the heritage identified by DA-MOP Regional IPCIs is not listed in the Regulating Plans or entered in the RMN. The Environmental Act (Law of 9 March 1994) and the Regulations for the Environmental Impact Assessment System (SEIA) (Supreme Decree 95/01.2002) indicates the kinds of activities that may have an impact on the environment and the procedures for conducting an environmental impact assessment, among which are projects involving cultural heritage.

- 1.9 The main institution charged with protecting national heritage is the Council on National Monuments (CMN), which is responsible for declaring properties national monuments and updating the RMN, managing the purchase or transfer to the State of monuments that are private property, regulating access to national monuments, granting permits and authorizations for all work to preserve, repair, and restore national monuments, and to conduct excavations at archeological and paleontological sites. The Ministry of Housing and Urban Development (MINVU) is responsible for overseeing all aspects of urban planning, communal and inter-communal planning and their respective regulations, urban development, and construction plans, and enforcement of relevant legislation, including historic preservation assets and areas. The National Commission on the Environment (CONAMA) administers the SEIA nationally, coordinating the issuance and enforcement of environmental quality standards and programs. The SEIA establishes the procedures for assessing the environmental impact of national heritage projects and activities.
- 1.10 The Architecture Division of the Ministry of Public Works (DA-MOP), through its Regional Divisions and Department of Architectural Heritage (DEPA) is charged with studying, designing, and executing works to restore, rehabilitate and refurbish public heritage buildings. DA-MOP does this work mainly at the request of regional governments, municipalities, and government services and enterprises. DA-MOP devotes much of its technical experience to designing and executing works to protect and enhance immovable heritage in Chile. Other specialists work in the CMN's Technical Secretariat and MINVU. There are few specialists in the private sector trained in heritage building preservation.
- 1.11 Other institutions have concurrent duties regarding heritage properties: (a) the National Council for Culture and the Arts (CNCA) and its National Fund for Cultural Development and the Arts (FNDCA) (Law 19,891 of 2003) whose functions include promoting the construction, enlargement and authorization of infrastructure and equipment for developing the country's cultural, artistic and heritage-related activities; and (b) municipalities, through regulating plans, control the works that can be carried out on heritage properties and areas. There are

corporations and foundations that execute projects and activities to support the nation's heritage, either directly through their own projects and initiatives, or in cooperation with public institutions.

- 1.12 In 2006, a committee was created with representatives from the public and private sectors to draw up a technical proposal to improve the institutional framework for the nation's heritage and moved ahead with the development of a heritage policy as a priority cultural policy. In 2007, the committee proposed that the lead agency be a heritage institute [Instituto del Patrimonio], part of the decentralized government administration, with independent legal status and its own assets, in order facilitate its activities and the State's permanent involvement in cultural heritage. The institute would also administer a national fund for cultural development, which could finance projects for the preservation, recovery, and dissemination of intangible, tangible, movable and immovable heritage assets. As the institute's responsibilities and organization and the fund's creation are currently under study, there may well be changes to the main institutional functions assigned with respect to heritage enhancement. The available documentation (Report on the institutional heritage, Proposals for improving heritage policies and instruments and the institutional framework for heritage, Santiago, April 2007) indicates that these changes would consolidate regulatory and executive functions currently dispersed among different agencies.

C. Investment in heritage preservation and enhancement

- 1.13 The government and the private sector invest in heritage assets; however, spending on protection, rehabilitation and development of immovable heritage in Chile: (a) is not commensurate with the breadth or complexity of its heritage, (b) comes from different, poorly coordinated public and private sources, and (c) has proven to be unsustainable in many cases. The national government allocated US\$31.5 million in 2005 for investments in heritage enhancement, and US\$20.1 million in 2006. The lion's share went for public areas (47.5%), cultural facilities (29.4%), and public building rehabilitation (14.5%). The rest was used for religious buildings (5.5%), residential buildings (0.4%) and military buildings (2.7%). A breakdown of investment by region is given in Table I.2. Territorial investment distribution bears no relation to the location of national monuments in the regions, except in the case of the Santiago metropolitan region, which accounts for 25% of the monuments and receives this same percentage of investment. No exhaustive, reliable data exists about private investment in immovable heritage enhancement. There are foundations and civil society organizations that invest in the sector, some of which are tax-exempt pursuant to Law 18,965 of 1990 (Cultural Donations Act). It is estimated that in 2006, a total of approximately US\$43 million was approved under this law; however, only US\$15 million actually materialized. Of this sum, between 10% and 20% (i.e. approximately US\$1.5-US\$3 million) corresponded to donations applied to immovable heritage.

Table I.2: 2005-2006 Investment in heritage assets by region

N°	Region	Investment in US\$000s		
		2005	2006	Total
1	Tarapacá	112	927	1,039
2	Antofagasta	7,211	2,661	9,872
3	Atacama	934	517	1,452
4	Coquimbo	696	508	1,204
5	Valparaíso	1,012	2,762	3,774
6	O'Higgins	712	763	1,474
7	Maule	813	509	1,321
8	Bio Bio	3,177	1,711	4,888
9	Araucanía	1,026	312	1,338
10	Los Lagos	2,872	4,656	7,527
11	Aisén	431	252	683
12	Magallanes	2,170	2,023	4,193
13	Metropolitan	10,404	2,473	12,877
Total general		31,570	20,074	51,642

- 1.14 Investment data by entity providing funding indicates that 37% of total investment is transferred to regional governments through the FNDR (including IDB financing and funds from third parties), reaching approximately US\$19 million in 2005 and 2006. MINVU is also extensively involved in financing, either in conjunction with municipalities, or directly through the Housing and Urban Development Service (SERVIU), and contributed another 38% of total financing during this period, for a sum of more than US\$19 million in investment in public heritage areas. Resources transferred through the Library, Archives and Museum Division (DIBAM) and MOP were relatively less significant—about US\$4.7 million in each case.

D. Progress in heritage enhancement activities

- 1.15 Despite government and private sector investment efforts at heritage enhancement, immovable heritage's conservation in Chile is still only in fair condition. The nation's heritage, that is publicly or privately owned, is affected by varying degrees of functional and physical obsolescence that diminish its capacity to provide a stream of benefits to society. This situation stems from a combination of factors that include institutional arrangements whose coordination is inadequate to enhance heritage and an absence of mechanisms to foster cooperation between stakeholders. Consequently, there is a piecemeal approach towards heritage: the private sector mainly invests in religious architecture and art, while the public sector focuses on historical monuments, and more recently on some kinds of industrial and agricultural heritage. Furthermore, interest in heritage enhancement varies over time, with recurring peaks and troughs in the volume of resources the government and the private sector allocate for this purpose, depending on whether or not there are circumstances that make a heritage object's profile more visible (for example, some churches in Chiloé are on the World Heritage List). This is typical in the early stages of concern for immovable heritage, in which the interest of some groups of

society is aroused, while large sectors of public opinion are still not fully aware of its value, and there is resistance to preservation from groups interested in developing areas with heritage assets.

- 1.16 The current state of affairs does not tap fully the country's heritage so it can contribute to national development. Chile has the required institutional framework to progress to a more advanced stage in its heritage enhancement efforts to improve the quality of its interventions, make them sustainable in the long term and increase the volume of resources allocated to the sector. In order to take full advantage of the country's favorable institutional conditions, adjustments are needed to permit more efficient allocation of resources and foster participation of public, private, and civil society actors, thus guaranteeing long-term sustainability of investments. A review of international experiences indicate that to advance towards efficient and sustainable methods of immovable heritage enhancement, it is necessary to promote its appreciation by all sectors of society, modernize and provide stability to the regulatory framework for preservation, and promote comprehensive and efficient management models for the resources society allocates to these purposes. As the institutions involved are willing to move forward on these issues, the government has approached the Bank for support.

E. Strategy and justification of Bank participation

1. The Bank's country strategy

- 1.17 The Bank's 2006-2010 country strategy with Chile seeks to: (i) reduce opportunity gaps; (ii) reduce competitiveness and income gaps with the developed economies; and (iii) make government more effective and bring it closer to the citizenry. This operation fits in with the Strategy's third objective, particularly as regards activities to promote territorial development and create conditions for its long-term sustainability. The program brings to fruition one of the areas of support to Chile envisaged under the Strategy, which includes promoting initiatives that allow regions and cities to improve their capacity for investing and attracting private interests, in this case for the recovery of urban assets, especially immovable property and urban areas of heritage value.

2. The Bank's experience and lessons learned

- 1.18 The Bank has been a pioneer among the multilateral financial institutions in supporting heritage preservation programs. Two loans in support of the Quito Historic Center Rehabilitation Program (EC-0169 and EC-L1041) led to the development of innovative public-private sector cooperation mechanisms to finance and sustainably manage immovable heritage and urban heritage areas. The loan to support the Preservation of Urban Historical and Cultural Sites (Monumenta Program) (BR-0261) developed effective mechanisms for implementing a state policy to promote heritage preservation, particularly for effective technical and financial cooperation mechanisms between the national government and subnational governments (states and municipalities) to preserve and sustainably manage urban heritage sites declared national monuments. The loan in support of

the Sustainable Community-Based Tourism Development in Chiloé and Palena (1507/OC-CH) has a financing component for churches in Chiloé on the UNESCO World Heritage List. This component's execution has provided valuable lessons on research and design procedures for projects involving immovable heritage. Lessons learned by the Bank on protection and rehabilitation of urban heritage areas were applied to the Valparaíso Urban Rehabilitation and Development Program (1703/OC-CH) that proposes integrated investments that are large enough and appropriately sequenced to promote recovery and rehabilitation of the city's historic downtown on the UNESCO World Heritage List. These lessons will be put into practice in the investments for enhancing urban heritage areas that this program will make during its execution.

- 1.19 The main lessons learned by the Bank during these programs include: (a) the importance of having a government policy to foster and finance immovable heritage preservation with national priorities; (b) the preservation and enhancement of heritage requires public-sector financial and technical support to ensure the quality of interventions and subsidize the largest costs incurred by owners and users. These subsidies, which are justifiable given the nature of the public good, have many of the service flows from non-producing heritage assets; (c) the need to draw up thorough technical studies prior to design and execution of interventions in immovable heritage, since errors are irreversible; as a safeguard, intervention proposals must be approved by the specialized technical agencies; and (d) the need to work in conjunction with the private sector and civil society organizations to ensure sustainability of enhanced heritage areas and immovable property.

F. Program strategy

1. Strategic approach and interventions

- 1.20 The program would support the Chilean government in establishing a sustainable mechanism for promoting and investing in efforts to enhance urban areas and immovable heritage of significance to regional development. This mechanism will bring to fruition a proactive government policy to protect heritage. The government would like each region's most relevant immovable heritage on the National Monument Register (or in the process of being added to the Register by initiative of the central government) to have: a management model that ensures its preservation over time, and contributes to national, regional, and local socioeconomic growth. The government would like to move forward in implementing a national and regional public institutional framework that efficiently and effectively provides support and incentives for maintaining and recovering national heritage. The program expects to increase active participation of the private sector in heritage recovery and maintenance. These achievements will only be possible if Chileans come to recognize, value, and participate in the preservation, recovery and maintenance of their national heritage and if there are experts and technical personnel specialized in heritage recovery.

- 1.21 Implementing and consolidating the program-supported mechanism is considered a prerequisite for Chile to reach a more advanced stage of heritage enhancement through structured cooperation between the public sector (central, regional, and local government) and the private sector (philanthropy, civil society organizations, community groups, real estate investors, and individuals). As this is a longer term goal, the program envisages institutional strengthening actions to facilitate its achievement, that include: strengthening Council on National Monuments capacity to approve proposals for intervention in properties declared national monuments and streamlining the analysis and declaration process; assisting regional governments in incorporating the heritage's contribution in regional development, including identification, establishment of priorities, design and execution of investments in heritage enhancement; and to help the Ministry of Planning develop specific methodologies for social assessment of investments in heritage property enhancement, strengthening the DA-MOP in order to execute program technical studies and contracting of program works and SUBDERE in order to promote sustainable management mechanisms for heritage assets that stand to benefit from program-financed investments.

2. Coordination with other programs

- 1.22 This program is compatible with the conditional credit line for investment projects (CCLIP) approved for Chile. Its components are coordinated with institutional strengthening actions envisaged under the CCLIP Line's first loan that is funding the Program to Support Subnational Governance in Chile (1828/OC-CH). Specifically, this program complements: (1) the component to strengthen subnational entities in the institutional, territorial, and project management of regional governments; and (2) the component to foster sustainable management models, especially for projects promoting regional identity. The program will be coordinated with the Valparaíso Urban Rehabilitation and Development Program (1703/OC-CH), as well as with the Programa Orígenes (1784/OC-CH), where investments benefit heritage of significance to indigenous communities. Defining priority projects under the responsibility of regional governments will also be coordinated in areas where there are also Orígenes coordinating units for Region I (Aymara Peoples), Region II (Atacameños), and Regions VIII and IX (Mapuches). These units may contribute through regional governments by helping to identify projects and design and execute investments. The program will finance investments that complement actions envisaged under Sustainable Community-Based Tourism Development in Chiloé and Palena (1507/OC-CH) and the Tourism Promotion Program (CH-L1023) as they will enhance immovable heritage properties that are important for developing special-interest tourist destinations. Governments from Regions I, XI, and XII will be charged with ensuring adequate coordination of investments in the two programs.

II. THE PROGRAM

A. Objectives of the conditional credit line for investment projects (CCLIP) and performance-driven loan (PDL) program

- 2.1 In December 2006, the Bank approved the Conditional Credit (CCLIP) Line and Individual Loan Program to Support Subnational Governance in Chile (CH-X1001) for up to US\$400 million. The purpose of this CCLIP Line is to support Chile's decentralization process and regional development and will finance: (i) individual investment projects in all areas eligible for National Fund for Regional Development (FNDR) financing that satisfy the project selection and prioritization criteria in the operating regulations of the FNDR, regional governments and other public institutions involved in the public investment cycles in Chile (mainly the Ministry of Finance's Budget Division, the Ministry of Planning, the National Commission on the Environment, and their regional offices); (ii) institution-strengthening and management capacity building activities, including training activities; and (iii) studies. The Bank's programming paper with Chile includes the present program as part of the CCLIP Line to strengthen the regions' capacity to enhance their heritage properties.
- 2.2 The CCLIP Line's executing agency, the Office of the Deputy Secretary for Regional and Administrative Development (SUBDERE), has successfully executed individual investments in heritage enhancement with financing from the National Fund for Regional Development (FNDR) under the Program for Improvement of the Efficiency and Management of Regional Investment (1281/OC-CH) and the Restoration component of Chiloé's World Heritage churches in the loan to support Sustainable Community-Based Tourism Development in Chiloé and Palena (1507/OC-CH). This operation's objective is to further the process by which these isolated actions are transformed into a structured program that executes national policy adopted by the Chilean government to improve heritage and cultural management. Consequently, this CCLIP Line operation will be a performance-driven loan (PDL) in which disbursements depend directly on achievement and verification of outcomes. Operation outcomes, which are directly linked to its objectives, and monitoring indicators are summarized in Table II.1 and described in detail in Annex I.

B. Objectives and scope

1. General objective

- 2.3 The operation's overall objective is to protect and enhance immovable heritage (buildings, urban areas and sites) that have been or are in the process of being declared national monuments of national or regional priority, as a means of generating socioeconomic benefits that contribute to sustainable development.

2. Specific objectives

- 2.4 The operation has the following specific objectives:

- a. To include, with the participation of regional governments, heritage protection and enhancement as a component of regional development, generating institutional frameworks that efficiently coordinate the participation of public institutions.
 - b. To protect and enhance immovable heritage that contribute to socioeconomic development through investment and other actions that protect them, permit their use in cultural, social, and economic activities compatible with their preservation; and to implement management mechanisms that ensure their sustainability, and foster private sector involvement.
 - c. To promote community awareness and appreciation of program actions for heritage enhancement.
- 2.5 Accomplishing these objectives will give rise to an institutional mechanism within Chile's decentralized resource management system for defining priorities, as well as executing and operating investments for heritage enhancement that will ensure their contribution to socio-economic development by providing a continuous stream of social, cultural and economic benefits.

C. Eligible expenditures

- 2.6 Eligibility criteria for investment are specified in the operating guidelines for the program agreed to with SUBDERE, which is available in the program files.
- 2.7 ***Heritage protection and enhancement.*** Activities to protect and enhance national monuments in the National Monument Register (RMN), under the historic monument, archeological monument, paleontological monument, and typical area categories, are divided into the following subcomponents:
- a. *Investments for Enhancement:* Works for physical, formal, and functional recovery of national monuments—such as restoration, rehabilitation, reconstruction, or new construction to enhance the heritage assets, groups of monuments, and the surrounding areas—investments that ensure the sustainability of the heritage enhancements and the territorial system of which they are a part. Integrated investments in infrastructure improvement, public areas, public services and public properties in heritage areas in the National Monument Register (Typical Areas); procurement of tangible and intangible heritage assets linked to sustainable property management; furnishings associated with the sustainable management of the heritage assets.
 - b. *Studies and operational plans:* Prefeasibility studies, operational plans, master plans, load capacity studies, designs, engineering and all studies needed for recovery of heritage properties under this program. Specialized technical assistance for supervision of project design and execution.
 - c. *Management models:* Design and execution of activities linked to implementation of administration and management models for heritage enhancement projects financed by the enhancement investments component, or for completed projects requiring an impetus boost to ensure their operation

and sustainable management. It considers, whenever necessary, partial financing and decreasing recurrent expenditures to implement innovative management mechanisms.

- 2.8 Heritage areas and properties not included in the RMN will be eligible for studies, preinvestment, and technical assistance for legal protection of the assets, provided that the Regional Program Committee (MRP) or DA-MOP, respectively, feel they merit submission to the CMN for consideration as national monuments.
- 2.9 ***Institutional strengthening.*** Activities to increase the capacity of public and private actors involved in the enhancement, preservation, and sustainable management of heritage assets, fostering partnerships between public and private institutions. Financing is envisaged to strengthen essential functions of public actors, including: (a) strengthening regional governments to include heritage among the assets to be leveraged in the regional development process; (b) strengthening SUBDERE and DA-MOP to increase their investment execution and design capacity; (c) developing specific methodologies for social assessment of heritage asset enhancement projects; (d) supporting the CMN in its efforts to declare national monuments, approve enhancement projects, and oversee investments; (e) midterm and final program evaluations; and (f) training events and exchanges of successful experiences. This includes expenditures on: hiring professional staff, purchasing computers and office equipment, technical assistance for agencies responsible for program management, inventories, technical manuals, information and project systems, monitoring, evaluation and follow-up, support for development and provision of teaching aids required for training activities.
- 2.10 ***Program dissemination.*** Actions to foster awareness, preservation, and appreciation of heritage, particularly by communities where such heritage is located, with a view to strengthening their cultural and territorial identity, and encouraging greater social unity. It includes expenditures for program dissemination and promotion in different geographic, cultural, and social areas, seminars, scientific publications, catalogues, heritage property inventories, pedagogical documents and others.
- 2.11 ***Program administration.*** Expenditures related to administration of program resources, including per diems, travel, equipment, and general expenditures for administrative and management support, training events and successful experience exchanges, as part of the program's national counterpart. It includes engaging consulting services to verify the outcomes.

D. Outcomes and indicators

- 2.12 The program would achieve the following outcomes:
 - a. To meet the objective of including regional governments in heritage enhancement and protection activities, multiyear regional portfolios of investments in heritage protection and enhancement will be drawn up. The prefect of the region concerned will include the portfolios' annual investments

in the Regional Investment Public Programs (PROPIR) approved by the regional council.

- b. To meet the objective of protecting and sustainably enhancing heritage that contributes to socioeconomic development, the necessary investments will be executed, evaluated on the basis of specific methodologies for social assessment of heritage property enhancement. Management mechanisms will be implemented to ensure the long-term sustainability of the investments.
- c. To foster community awareness and appreciation of their heritage and of program activities, awareness campaigns, publications and seminars will be carried out in beneficiary communities and regions across the country.

Table II.1: Summary of outcomes matrix
(See Outcomes matrix (Annex I) for further details)

Outcomes	Indicators	Disbursement			
		1	2	3	4
Regional multiyear portfolios of investments in heritage protection and enhancement.	Number of regions with portfolios validated by their respective regional government.	8	15	15	15
Specific methodology for social assessment of heritage property enhancement projects.	Methodologies approved by Ministry of Planning and Cooperation (MIDEPLAN).			Methodologies approved	
Heritage assets enhanced with program funding have management mechanisms in place that guarantee enhancement sustainability.	Percentage of immovable assets under the program with management mechanisms working.	30%	50%	70%	80%
People from areas in the vicinity of enhanced heritage properties are aware of the investments financed by the program and view them favorably.	Percentage of people surveyed that are aware of the investments and view them favorably.		10%	20%	30%

2.13 To measure the outcomes described, the following indicators will be used:

- a. Regional involvement in heritage enhancement efforts will be measured through multiyear investment portfolios validated by regional governments. The target is to have portfolios in at least 8 regions by the first PDL disbursement and in 15 regions by the second. Investments will be evaluated using specific methodologies for social assessment of projects that include the most recent advances in the field. These methodologies are expected to be approved by the third PDL disbursement.
- b. Protection and sustainable enhancement of heritage property will be measured based on the efficient functioning of institutional management mechanisms

implemented under projects. Such mechanisms are defined as all institutional arrangements, rules, and resources that enable heritage assets to generate a permanent stream of cultural, social, and economic benefits. Given the experimental nature of many of these institutional arrangements, it is anticipated some may need to be adjusted during program execution. Consequently, the target for the first PDL disbursement is modest, with the expectation that at least 30% of the projects are functioning sustainably, and gradually increasing to 80% by the end of program execution. This indicator will be calculated through a management analysis of a stratified sample of projects financed.

- c. Community awareness and appreciation of their heritage and program activities will be measured through surveys of a representative sample of the community from the area around a series of selected program-financed projects. As current awareness of these issues is limited, the targets to be achieved are modest. By the second PDL disbursement, at least 10% of the population is expected to appreciate and be aware of program activities, and this figure should increase to 30% by the last disbursement.

E. Cost and financing

- 2.14 The program will be financed through an IDB loan for US\$80 million with a counterpart contribution of US\$20 million to cover the US\$100 million total program cost. This is a performance driven loan (PDL), in accordance with Bank policy (document GN-2278-3). Bank financing will come from the Ordinary Capital. Table II.2 shows an approximate breakdown of program costs.

Table II.2: Breakdown of estimated program costs

Eligible costs	US\$ millions
Heritage protection and enhancement	72.0
Institutional strengthening	11.3
Promoting heritage awareness and appreciation	4.7
Financial expenses	12.0
Total estimated cost	100

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The borrower will be the Republic of Chile and the program executing agency will be the Subsecretariat of Regional and Administrative Development (SUBDERE) of the Ministry of the Interior. The Architecture Division of the Ministry of Public Works (DA-MOP) and the regional governments will be program coexecuting agencies. **SUBDERE and DA-MOP will enter into a program execution agreement, which will be an eligibility condition for disbursement of the loan.**

- 3.2 SUBDERE and the regional government may enter into agreements with other entities to execute specific projects financed by the program in order to meet these projects' particular execution requirements. Such entities include other ministries and government agencies, municipalities, universities, foundations, corporations, and non-profit organizations.

B. Program execution mechanisms

- 3.3 SUBDERE, the program executing agency, will ensure that the program objectives are met, observing the contractual terms agreed to by the Chilean government and the Bank. To this end, a Program Coordination Unit (UCP) will be created within SUBDERE's Regional Investment Management Department, which comes under its Regional Development Division. DA-MOP will implement the program through its Regional Architecture Divisions (DRAs) and its Architectural Heritage Department (DEPA). In general terms, DA-MOP is charged with addressing (on its own or through outsourcing or subcontracting) program-related technical matters. "Technical matters" are understood as project design and formulation from conception to implementation, as specified in the agreement signed by the institution financing the project (SUBDERE, regional governments, or others). **Program execution will be regulated by the program operating guidelines whose implementation by SUBDERE will be an eligibility condition for disbursement of the financing.**

- 3.4 Overall program management will be headed up by a board of directors consisting of the Ministry of the Interior's Subsecretariat of Regional and Administrative Development (SUBDERE), the Director of the Ministry of Finance's Budget Division (DIPRES) and the Director of the Ministry of Public Work's Architecture Division (DA-MOP) or their representatives. The Board will be responsible for: (i) defining the program budgetary framework; (ii) resolving conflicts and coordinating with sectoral and regional agencies, as well as other relevant actors; and, (iii) ensuring timely fulfillment of program objectives and expected outcomes. In performing its duties, the Board of Directors will receive advisory assistance from a national committee made up of DA-MOP and SUBDERE officials.

- 3.5 Investments will be identified, prioritized, evaluated and executed according to the operational procedures of the FNDR, the National Investment System (SNI), the Environmental Impact Assessment System (SEIA), and the Budget Act in effect.

C. Investment identification, prioritization, and evaluation

- 3.6 The regions will identify the investments to receive program financing. The DA-MOP may also identify projects of importance to several regions, or of high priority to the nation. In order to prepare the investment portfolio to be submitted to the Regional Council for approval, a Regional Committee (MRP)—consisting of the SUBDERE Regional Unit, the DRA and the regional governments—will provide advisory assistance to the Regional Prefect. The MRP will have the following functions:

- a. Identify heritage assets on the National Monument Register (RMN), or, in DA-MOP's informed judgment, worthy of being proposed to the CMN for inclusion, and are of top priority for regional development.
 - b. Gather investment proposals for preservation and enhancement of heritage assets listed on the RMN that have been submitted by local and regional public institutions, national public institutions whose sphere of activity covers important program topics, civil society and nongovernmental organizations, non-profit foundations and corporations, or private entities.
 - c. Avoid duplication of public sector efforts in legal protection and enhancement of regional heritage assets.
 - d. Consult with the National Commission on the Environment (CONAMA) on the need to submit projects to the SEIA, depending on the extent of heritage assets' impact or intervention.
 - e. Encourage activities that are necessary for proposing to CMN heritage assets that are of regional priority but not on the RMN, and whose protection is sought under the National Monuments Act (Law 17288).
 - f. Propose to the prefect a regional heritage investment portfolio.
- 3.7 In performing its duties, MRP will operate pursuant to guidelines for identifying priorities and evaluating project eligibility, in addition to other provisions set forth in the program operating guidelines. To this end, MRP may also call on other relevant actors, such as: (i) the National Tourism Service (SERNATUR); (ii) the National Indigenous Development Agency (CONADI); (iii) the National Council on Culture and the Arts (CNCA); (iv) the Ministry of National Property; (v) the Bicentennial Commission; (vi) the Ministry of Housing and Urban Development (MIDEPLAN); (vii) Chilean Economic Development Agency (CORFO); (viii) Technical Cooperation Service (SERCOTEC); (ix) Solidarity and Social Investment Fund (FOSIS); (x) Municipalities; (xi) Civil Society Organizations; and (xii) individuals that could contribute to the program.
- 3.8 Based on the MRP proposal, regional prefects will present a multiyear portfolio of investments in heritage enhancement to the Regional Development Councils (CORE). Prefects will select from the portfolio top priority projects for implementation. Priority initiatives will be implemented by DA-MOP directly, or by the institution promoting the investment, or through other technical agencies, and will be evaluated by the Regional Planning Subsecretariat (SERPLAC) following the methodologies MIDEPLAN recommends for this kind of investment. Investments in works will require CMN's prior approval of the project design. The regional prefect will request financing from the program executing agency for projects approved by CORE and recommended for investment by SNI or DIPRES. Initiatives with national scope will be identified by the national committee, implemented by DA-MOP, the sponsoring institution, or other qualified

technical agency, and evaluated by MIDEPLAN following the approved methodologies for this kind of investment.

- 3.9 Should resources be insufficient to finance all projects presented by regional prefects to the national committee, the Board of Directors will finance from amongst the projects presented those with highest priority.

D. Project execution

- 3.10 The investments with approved funding will be carried out by the institution financing the project (regional governments, SUBDERE) through the technical unit designated, which preferably will be DA-MOP. When the latter is not the technical unit, it will provide technical advisory assistance on project execution, and may hire specialists or experts for this purpose when considered necessary or on the recommendation of the CMN. Execution may be carried out through agreements with specialized agencies or municipalities in keeping with project needs. DA-MOP's or the technical unit's competitive bidding guidelines, which will be made available on the CHILECOMPRAS website, will be used.
- 3.11 The CMN will supervise execution of works and certify their completion in accordance with the plans and technical specifications approved by the Council during the design phase. To this end, the program will fund CMN's institutional strengthening.
- 3.12 SUBDERE and DA-MOP will follow the procedures set forth in Chilean law and regulations. This includes procedures for evaluating and selecting individual projects, contracting and executing works, and procuring goods and services; mechanisms for obtaining land use, construction, and environmental permits; and construction standards. All the aforementioned procedures are acceptable to the Bank, as evident from The Joint IDB-World Bank Country Financial Accountability Assessment (CFAA) (World Bank Document No. 32630-CL) and the World Bank's Country Procurement Assessment Report (CPAR) (World Bank Document No. 28924-CL). At the Chilean government's request, the Banks and the government are jointly updating the CPAR, the results of which will be available in early 2008, in time to be applied to the present operation.

E. Monitoring and evaluation

1. Monitoring

- 3.13 On 10 January 2006, the Management of the Bank authorized a pilot program allowing flexible treatment and simplification of supervision procedures for Bank operations in Chile (CC-6066). Program execution monitoring will be in line with this pilot program, which entails simplifying supervision procedures, adapting them to the particular features of the PDL.
- 3.14 The key element of program monitoring and evaluation will be the outcomes matrix attached hereto (Annex I). The executing agency will implement a monitoring and evaluation system with a database that contains information on outcome indicators and investments required for their achievement.

- 3.15 As part of the supervision system, the IDB Country Office in Chile: (i) will interact continually with the project team about critical aspects of program execution; (ii) will prepare, in conjunction with the executing agency, at the program startup workshop a joint monitoring procedure of activities included in program execution plans; and (iii) will, together with the executing agency, make on site visits and organize semiannual meetings to monitor program progress, whose minutes will be used as the semiannual monitoring report. These reports will contain at least the following information: (i) the extent to which targets are being cumulatively attained; (ii) operational problems encountered and their solutions; and (iii) extent to which there is coordination between different national and subnational authorities involved in the program. The IDB Country Office in Chile, in accordance with information provided by the borrower, will update the Project Performance Monitoring Report (PPMR), which will be drawn up to reflect the characteristics of a program based on its outcomes.

2. Evaluation

- 3.16 It was agreed there would be a midterm evaluation of the effectiveness of sustainable management mechanisms used in program-financed projects. This evaluation will be conducted when there are sufficient projects to analyze the different management models used under the program, and before 60% of funds are allocated or the second PDL disbursement has been made, whichever occurs first. There will also be a final external program evaluation when at least 80% of the funding has been executed or when the fourth tranche has been disbursed, whichever occurs first. The idea is to assess: (i) functioning of the project identification and selection system; (ii) outcomes of heritage enhancement activities; and (iii) sustainability of project management mechanisms. This evaluation will be carried out by external consultants, according to the terms of reference agreed between the borrower and the Bank. The payment of their fees will not be included in any of the operation's tranche releases and will not be conditional on achievement of any agreed outcomes. Financing of these activities will be considered eligible program expenditures.

3. Performance verification

- 3.17 Program performance will be verified by an independent firm acceptable to the Bank, selected and contracted in accordance with Bank procedures, and the cost will be defrayed out of the financing. The corresponding fees will not be covered in any of the operation disbursements and will not be conditional on attaining any of the agreed outcomes. Financing for these activities will be considered eligible program expenditures. Verification of outcomes achieved will focus on three main objectives: (i) issuing an opinion on the accuracy, reliability, validity, and consistency of the information used as evidence of achieving the outcomes set for each program disbursement; (ii) verifying the extent to which outcomes set for each program disbursement have been achieved (see the outcomes matrix in Annex I); and (iii) verifying that expenditures presented are eligible under the program (see the list of eligible expenditures, paragraphs 2.5 to 2.8). The executing agency

should send with each disbursement request an outcome indicator achievement report prepared by the aforementioned independent firm **Selection and contracting of the verifying firm is a condition precedent to the first PDL disbursement.**

4. Financial audit

- 3.18 The Office of the Comptroller General of the Republic (CGR) will carry out the annual financial audit, pursuant to its legal powers and in accordance with standard Bank rules and procedures. The CGR will also review ex post and by sampling supporting documentation justifying disbursements.

F. Execution period and disbursement schedule

- 3.19 The program will be executed over a five-year period, according to the tentative plan shown below. There will be an initial disbursement (advance) of up to 20% of the total loan amount to launch the program. The advance will be deducted proportionally from the disbursements that follow, in accordance with Table III.1.
- 3.20 The program will receive four disbursements, in addition to the advance. Following the advance, all disbursements will be released once the corresponding performance verification demonstrates that outcome targets have been achieved to the extent agreed upon between the executing agency and the Bank. The executing agency will send a disbursement request to the Bank, including information regarding eligible expenditures to be reimbursed. Should the executing agency request an advance of less than the standard 20%, the difference will be spread out equally over the program's four disbursements.

Table III.1: Disbursement schedule (US\$ millions)

	Advance	PDL disbursements				Total
		1°	2°	3°	4°	
Disbursement amount	16	16	16	16	16	80
Expenditures subject to verification		20	20	20	20	

- 3.21 The Bank will release the proceeds of the loan in five equal disbursements, to include a US\$16 million advance (20% of the loan) and four US\$16 million PDL disbursements. The advance, which will be released once the loan contract takes effect and the conditions precedent have been fulfilled, will cover the approximate costs to be incurred prior to the first PDL disbursement. The four PDL disbursements will be released when the outcomes in the outcomes matrix in Annex I are achieved. Together with each disbursement request, SUBDERE must submit: (i) the outcomes evaluation report from the independent consulting firm (ii) a breakdown of eligible costs and expenditures for those requesting the disbursement. For the Bank to release each US\$16 million PDL disbursement, the SUBDERE must show cumulative eligible expenditures equivalent to US\$20 million, an amount representing the gross sum of the disbursement plus a fourth of the US\$16 million advance.

- 3.22 Program disbursements have been scheduled over a five-year period, with one single annual disbursement expected each year from 2008 through 2012.
- 3.23 The Bank will disburse funds to the General Treasury of the Republic (TGR) account authorized for such purposes. The Ministry of Finance, in accordance with the financial plan the executing agency presents in its annual budget, will authorize in a timely manner the TGR to transfer funds to the program to ensure smooth execution.

G. Recognition of Expenditures

- 3.24 The executing agency requests that the Bank recognize retroactively as chargeable to the local counterpart funding eligible expenditures to a maximum of US\$5,000,000 incurred after 31 July 2007, provided such expenditures satisfy conditions substantially similar to those of the loan contract.

H. Procedures

- 3.25 Contracting works and procurement of goods and services for the program will be governed by the provisions applicable to performance-driven loans (document GN-2278-2). Procurement of goods and services out of program funds will follow national procedures, provided that the principles of competition, economy, transparency, equality, publicity, and due process are respected.
- 3.26 Project financial management will be divided into (i) management of financing for activities prior to works (institutional strengthening, dissemination, and project preparation) and (ii) management of financing for project execution (investment). SUBDERE will distribute funds for project preparation and execution by means of transfers to regional governments, which through their technical unit—preferably the DA-MOP—will certify payments to the suppliers of the respective goods and services. Funds available for transfer to regional governments are reflected in the annual budget approved for SUBDERE.
- 3.27 Regional governments and SUBDERE currently use the State Financial Management Information System (SIGFE). In order to improve the process of recording transactions and payments, and facilitate its use in monitoring eligible expenditures, SUBDERE is working with SIGFE to add a new module in which expenditures related to Bank financing are recorded. This new model will enhance regional governments' and SUBDERE's internal control structure and reduce transaction costs for all parties.

I. Local currency conversion option

- 3.28 This fourth individual operation under the CCLIP line CH-X1001 (document PR-3121) will be financed in United States dollars from the Ordinary Capital of the Single Currency Facility, subject to the Operational framework for lending in local currency (document GN-2365-2 of 4 November 2005). To minimize exchange risk, the borrower will be entitled, pursuant to the Local Currency Facility (LCF), to convert to pesos disbursements and outstanding balances for CCLIP operations. To broaden the borrower's financing options, conversion of local currency

disbursements and outstanding loan balances will be subject to two financial conditions in addition to those in the LCF: (i) the amortization profiles for local currency disbursements must be flexible; and (ii) price must be based on the Bank's effective funding cost should the Bank raise the financing through a bond issue. Justification for these two conditions, as well as the waiver of LCF conditions if the Interruption of Bank Access to Borrowing Clause is not applicable, is provided in Annex II.

IV. FEASIBILITY AND RISKS

A. Technical and economic feasibility

- 4.1 Over the last 2 years, the Subsecretariat of Regional and Administrative Development (SUBDERE) has successfully implemented 71 heritage preservation programs totaling US\$19.2 million with financing from the National Fund for Regional Development (FNDR). Projects have been designed and executed in keeping with commonly accepted heritage restoration techniques and principles. Investments benefiting national monuments were approved by the Council on National Monuments (CMN) and appropriately executed. In order to learn from this experience and improve practices being used, with a view to expanding the volume of investments in heritage enhancement, and diversifying the kinds of projects the program undertakes, an analysis of an indicative sample of projects was conducted. These projects include those with: investments in different phases of execution, different kinds of heritage assets, different participating stakeholder groups, heterogeneous economic uses, and locations in all regions of the country. Table IV.1 below lists the projects analyzed.

Table IV.1: Basic Characteristics of projects included in the sample

Name	Reg.	Status	Main users	Management model	Principle economic focus
Caldera Station	III	Executed	Community and tourists	Local – Municipal	Recreational and cultural use
Churches in Chiloé	X	Executed	Community and tourists	Ad hoc corporation	Religious preservation value
Los Andes Governor's Office	V	Planned	Local public agencies	Local public agency with bailment or lease subcontracts	Real estate use
Alamos Palace	RM	Planned	Non-profit corporations	Private corporation	Real estate use
Old Punta Arenas jail	XII	Prefeasibility	Great private sector potential	Potential public-private involvement	Real estate use
Valdivia Fortifications	X	Profile	Tourists	Municipal ad hoc corporation, university and DIBAM (Library, Archive and Museum Division).	Recreational and cultural use
Caldera Paleontological Park	III	Profile	Scientific center, tourists	Potential for university – local.	Scientific preservation value

- 4.2 A sample of projects was selected in order to identify a wide range of technical, financial, economic and management challenges that these properties face. This was done for purposes of obtaining lessons and indications of how such challenges were handled during program development and including them in the program operating guidelines. The sample was chosen together with SUBDERE, Architecture Division authorities, and the Bank project team. The seven projects identified are in different categories and development phases, and are located in 5 of the country's 13 regions, covering the macro areas in the north (region III), center (regions V and Metropolitan Region), south (region X), and far south (region XII). Their basic characteristics are presented in Table IV.1.
- 4.3 As shown in the table, one of the selected projects has been completed and the other is well advanced (Caldera Station and Churches in Chiloé), and were included in the sample in order to learn lessons about this kind of project preparation and execution. Other projects are in the draft project and project stages (Los Andes

Governor's Office and Álamos Palace) and prefeasibility stages (Old Punta Arenas Jail), and were included to study technical, financial, socioenvironmental, economic, and management analysis practices being applied and make recommendations on their improvement (wherever necessary) in the program operating guidelines. The two remaining projects are in the profile stage (Valdivia Fortifications and Caldera Paleontological Park) and correspond to a kind of investment that has not been previously undertaken in Chile. Their inclusion in the sample has given rise to discussion with the counterpart on applying in Chile the best international practices to this kind of project; practices which are included in the program operating guidelines.

- 4.4 The economic analysis of investments in heritage property to be intervened is particularly noteworthy. Under this analysis, a distinction is made specifically between those properties whose value is essentially for private use (real estate, community, tourism, cultural), and those whose value is principally for social and cultural use and hence, whose preservation and enhancement is for public use (churches, paleontological center). A key element of this analysis is the potential management models needed to sustain the anticipated investments. The different cases allow a wide range of possibilities to be explored, from local public management to co-participation with the private sector, and include a large variety of users and uses, such as public and private offices, commerce, and services to the community and tourists.
- 4.5 It was possible to conduct an economic assessment of some of the projects in the sample, focusing on the use value of these properties, particularly real estate and community or tourism uses. It was found this kind of benefit reflects only part of the total project benefits, which alone are not enough to make investment proposals viable. This result is due to the inability to include an analysis of the true willingness to pay for these kinds of properties in the flow of cultural, spiritual and social services that stem from an asset's non-use values, owing to its heritage nature. Indeed, these flows emanate from, for example, their simple existence, their legacy for future generations and other like intangible values. These non-use values should be added to estimated use values in order to have a better measure of each project's total benefits. There have been no previous experiences in Chile that would allow such benefits to be quantified. Accordingly, the program will develop and implement technical methodologies already tested in other countries that have been adapted to Chilean conditions in an effort to capture benefits of this kind.

B. Institutional feasibility

- 4.6 As part of the Conditional Credit (CCLIP) line preparation an assessment of execution risk was conducted using the methodology applied in the pilot program allowing flexible treatment and simplification of supervision procedures for Bank operations in Chile. The assessment produced a "moderate-low" risk profile, with the main risks factors being that: (i) development objectives and outcome and monitoring indicators used are often subjective and not precise enough; (ii) the project execution mechanism is not fully fleshed out, which creates ambiguities in

the regions; (iii) consultations to identify and design projects are lacking. Resolving these problems is one of the main reasons behind the Chilean government's request for Bank involvement in financing the program.

- 4.7 The program execution and financing plan has components and activities to increase coordinated involvement of regional government bodies (regional governments and pertinent Regional Ministerial Secretariats) in identifying, designing, and establishing priorities for investments in heritage enhancement. Furthermore, the program envisages systematic coordination of its investments in heritage enhancement with other public investments that contribute to their sustainability. Such public investments will include those made by institutions for productive development like the Chilean Economic Development Agency (CORFO) or executed by the National Tourism Service (SERNATUR) to encourage heritage asset use for tourism. Additionally, the outcomes matrix for this performance-driven loan (PDL) operation lists precise outcome indicators that are adjusted to measure achievement of the outcome targets sought by implementing an efficient program embodying government policy on heritage enhancement. Finally, appropriate procedures were agreed for the program execution plan so as to be detailed enough to enable decentralized program management based on the activities of regional governments, SUBDERE, and regional units of the Ministry of Public Work's Architecture Division (DA-MOP).
- 4.8 The CMN has validated procedures for declaring qualifying immovable heritage national monuments, an eligibility condition for program funding. These procedures have produced a selection of valuable monuments for the National Monument Register. Under the institutional strengthening component, funding is provided to enable CMN to absorb the greater technical demand represented by the program.

C. Social and environmental safeguards

- 4.9 Law 19300 of the Basic Environmental Act, regulations under the environmental impact assessment system (SEIA), and the institutional system created to apply these instruments, provide for an appropriate legal and institutional framework to enforce the pertinent environmental rules for national heritage protection. The Chilean SEIA sets out procedures to assess the effects on heritage, necessary mitigation measures and mechanisms to comply with such measures, whose oversight falls to the government agency with jurisdiction in the field. Lastly, projects must comply with the applicable environmental regulations as a prerequisite for funding approval. The National Commission on the Environment (CONAMA) is the lead agency and coordinator for the nation's environmental institutional system.
- 4.10 During the execution phase, program financed projects may have minor, local environmental impacts that are reversible and may be eliminated or mitigated under the works contracts. The documentation for competitive bidding and works contracts with the Ministry of Public Works' Architecture Division contains

safeguards that adequately mitigate such impacts. Also, the projects must be submitted to the SEIA, have an environmental rating from the respective CONAMA, including any necessary impact mitigation measures. The technical unit and project sponsor will ensure compliance with these measures.

- 4.11 No involuntary resettlement or negative social impacts are expected as a result of investments financed under the program. Investments benefiting heritage property of value for indigenous communities will be prioritized, designed and executed in consultation with the communities in question and the National Indigenous Development Agency (CONADI), as specified in the Indigenous Act (Law 19253 of 5 October 1993), whose objective is to protect and preserve the lands and the cultural, archeological, and architectural heritage of Chile's indigenous peoples. In some cases, these communities will assume responsibility for maintaining the rehabilitated property. This process is regulated in the program operating guidelines and the consultation and participation process will be facilitated by the CONADI executing units of the Programa Origenes, which is being funded by the Bank.
- 4.12 Law 19300 and SEIA regulations guarantee citizen participation in investment projects requiring environmental impact assessment studies, setting the timeframes and methods for such participation. The program will use procedures set out in national law for projects requiring only an environmental impact statement.
- 4.13 The application of the different mechanisms and regulations described in previous paragraphs will allow the program to comply with Bank environmental policy and safeguards, covering all stages of project design and implementation, with due attention to conservation of the environment and heritage, as well as key areas of information transparency, citizen participation, and protection of indigenous communities and their heritage. In accordance with safeguard policy filters, and because this operation is a PDL, it does not require environmental classification.

D. Special considerations

- 4.14 The main risk associated with program execution is the limited experience the institutions participating in the program have in identifying, prioritizing, and evaluating heritage conservation projects and in enhancing heritage assets. This risk is mitigated by the program's institutional strengthening activities and actions of the Regional Program Committees (MRP). Furthermore, social assessment methodologies for program-funded projects will be developed to ensure that the projects being financed generate a significant flow of social and economic benefits to the country, thus avoiding unwarranted or unprofitable investment.

CHILE
HERITAGE PRESERVATION PROGRAM (CH-L1032)

MATRIX OF OUTCOMES, INDICATORS, AND MEANS OF VERIFICATION

	Objectives	Outcomes	Indicators	Disbursement				Means of verification
				1	2	3	4	
1	To include, with the participation of regional governments, heritage protection and enhancement as a component of regional development, generating institutional frameworks that efficiently coordinate public institutions' involvement.	Regional multiyear portfolios of investments in heritage protection and enhancement.	Number of regions with portfolios validated by their respective regional governments.	8	15	15	15	Official letter from the prefect of each region to the executing agency that includes the portfolio and the minutes from the regional council meeting in which they were apprised of the portfolio.
		Specific methodology for social assessment of immovable heritage enhancement projects.	Methodologies approved by Ministry of Planning and Cooperation (MIDEPLAN).			Methodologies approved		Official letter from MIDEPLAN to the executing agency that includes the methodologies approved.
2	To protect and enhance immovable heritage that contribute to socioeconomic development through investment and other activities that protect them, permit their use in cultural, social, and economic activities compatible with their preservation; and to implement management mechanisms that ensure their sustainability, and foster private sector involvement.	Heritage assets enhanced with program funding have management mechanisms in place that guarantee enhancement sustainability.	Percentage of immovable assets under the program with management mechanisms working.	30%	50%	70%	80%	Report on the review of a stratified sample of immovable heritage enhanced using program funding.

	Objectives	Outcomes	Indicators	Disbursement				Means of verification
				1	2	3	4	
3	To promote community awareness and appreciation of program actions for heritage enhancement.	People in the vicinity of enhanced heritage are aware of the investments financed by the program and view them favorably.	Percentage of the population that is aware of the investments and views them favorably.		10%	20%	30%	Outcome of the survey on a representative sample of the population from the area around a selective sample of program-funded projects.

Indicators: Definitions and means of verification

The definitions and key elements to measure and define these indicators are listed below:

Outcome 1: Regional portfolios

A regional multiyear portfolio of investments is defined as all the basic studies and projects to protect and enhance eligible heritage assets that a region is proposing to finance with program funding, duly validated by regional governments.

The portfolio will need to consider at least the following:

- a. Name or title of the study or project and its location.
- b. Brief description of the study or project.
- c. Regional technical committee's opinion on the project's potential impact on development in the region.
- d. Total estimated investment.
- e. Execution stages

The prefect will forward the portfolio to the executing agency, certifying that the Regional Development Council (CORE) has been apprised of the portfolio.

Outcome 2: Project assessment methodologies

This outcome corresponds to the approval by the Ministry of Planning and Cooperation (MIDEPLAN) of specific methodologies for formulation and social assessment of immovable heritage enhancement projects executed under the program. These methodologies will support the corresponding processes of the National Investment System. Their content and scope will be similar to other MIDEPLAN sectoral methodologies.

Outcome 3: Heritage assets enhanced with sustainable management mechanisms

This outcome corresponds to intervened heritage enhancement and its sustainability.

Management mechanisms are defined as all institutional arrangements, rules, and resources that enable heritage assets to generate a permanent stream of cultural, social, and economic benefits. Given the experimental nature of many of these institutional arrangements, it is anticipated that some may need adjustment during program execution. Heritage asset management is sustainable when, during the operation of the asset, routine and preventive maintenance is performed and equipment and obsolete components are replaced, according to the standards defined in the preservation and enhancement project. Accordingly, the heritage asset will not require extraordinary actions in the future for its recovery.

To this end, a representative sample of projects completed and under way will be evaluated for each disbursement. The sample will include different kinds of projects (religious, urban construction for commercial use as offices or for services, historic downtowns, and other relevant kinds), the macro area (greater north, smaller north,

center and south) to which they belong, the scale of the intervention (investment value), and the management model. For each disbursement a sample of at least 30% of projects executed will be selected as representative of each stratum.

An evaluation will be conducted of each project in the sample. Its purpose is to determine to what extent the project management mechanism is working sustainably, as envisaged in project formulation.

The outcome indicator is obtained by comparing the proportion of favorably rated projects to the total number of projects analyzed, excluding those where there were deviations for reasons beyond the project's control.

Outcome 4: Community awareness of the program interventions

This outcome corresponds to the program dissemination component and consists of using surveys of the population from the area around the enhanced heritage to measure their awareness and appreciation of the program in general and the projects executed.

The survey will be applied to a representative sample of projects completed and under way, defined by type of project (religious, urban construction for commercial use as offices or for services, historic downtowns, and other relevant kinds), the macro area (greater north, smaller north, center and south) to which they belong, and the scale of the intervention (investment value).

To this end, after the program's second disbursement, the universe of projects completed and under way will be identified, the relevant criteria for stratification will be defined, and a representative sample will be determined for each stratum, containing at least 30% of the projects executed.

Using the aforementioned background information, an index will be created to measure the level of project awareness and appreciation, thus permitting potential beneficiary perception to be established quantitatively and qualitatively.