

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CHILE

**VALPARAÍSO URBAN REHABILITATION AND
DEVELOPMENT PROGRAM**

(CH-L1004)

LOAN PROPOSAL

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Annex I Logical framework

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://ops.iadb.org/approvals/pdfs/CHen.pdf
Tentative lending program	http://opsgsl/ABSPRJ/tentativelending.ASP?S=CH&L=EN
Information available in the RE1/SO1 technical files	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=#612311
Procurement plan	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=#617754

ABBREVIATIONS

AWP	Annual work plan
CASEN	Encuesta de Caracterización Socioeconómica Nacional [National Survey of Socioeconomic Data]
CORE	Consejo Regional de Desarrollo [Regional Development Council]
CORFO	Corporación de Fomento de la Producción [Chilean Economic Development Agency]
CSOs	Civil society organizations
DA-MOP	Dirección de Arquitectura [Architecture Division] of the Ministry of Public Works
DIPRES	Dirección de Presupuesto [Budget Division] of the Ministry of Finance
DOH-MOP	Dirección de Obras Hidráulicas [Hydraulic Works Division] in the Ministry of Public Works
EMS	Environmental management system
ESMR	Environmental and Social Management Report
FNDR	Fondo Nacional de Desarrollo Regional [National Fund for Regional Development]
FOSIS	Fondo de Solidaridad e Inversión Social [Solidarity and Social Investment Fund]
GORs	General Operating Regulations
IHNs	Integrated heritage neighborhoods
IMV	Ilustre Municipalidad de Valparaíso [Municipality of Valparaíso]
LFUC	Ley de Financiamiento Urbano Compartido [Shared Urban Financing Act]
MIDEPLAN	Ministry of Planning and Cooperation
MINVU	Ministry of Housing and Urban Development
MOP	Ministry of Public Works
NPEV	Net present economic value
NPFV	Net present financial value
OC	Ordinary Capital
PBD	Program Board of Directors
PEU	Program executing unit
PGP	General program scheduling
PROPEF	Project Preparation and Execution Facility
PSU	Program subexecuting unit
PTI	Poverty-targeting investment
SEE	Strategic environmental evaluation
SEQ	Social equity-enhancing
SERVIU	Servicio de Vivienda y Urbanización [Housing and Urban Development Service] of the Ministry of Housing and Urban Development
SES	Social and environmental strategy
SORs	Specific Operating Regulations
SUBDERE	Subsecretaría de Desarrollo Regional y Administrativo [Regional and Administrative Development Branch]
UNESCO	United Nations Educational, Scientific and Cultural Organization

PROJECT SUMMARY

CHILE VALPARAÍSO URBAN REHABILITATION AND DEVELOPMENT PROGRAM (CH-L1004)

Financial Terms and Conditions ¹				
Borrower: Republic of Chile			Amortization period:	11 years **
Guarantor: Republic of Chile			Grace period:	6 years
Executing agency: Regional and Administrative Development Branch (SUBDERE)			Disbursement period:	6 years
Source	Amount	%	Interest rate:	LIBOR
IDB (Ordinary Capital)	US\$25 million	34	Inspection and supervision fee:	0%
Local	US\$48 million	66	Credit fee:	0.25%
Total	US\$73 million	100	Currency:	U.S. dollars from the Single Currency Facility
Project at a glance				
<p>Project objective: The objective of the program is to help revitalize the city of Valparaíso by building on the city's urban heritage as the basis for new economic, cultural, and social activities that will benefit the city's residents.</p> <p>Special contractual conditions: <i>Prior to the first disbursement of the loan:</i> The program executing unit (PEU) is up and running (paragraph 3.3); the General Operating Regulations (GOR) are in effect (paragraph 3.14.); the agreement between the borrower and the coexecuting agency—the Municipality of Valparaíso (IMV)—has been signed (paragraph 3.13) the subexecuting unit in the Municipality of Valparaíso (PSU-IMV) is up and running (paragraph 3.5).</p> <p><i>During program execution:</i> The Specific Operating Regulations (SORs) are in effect (paragraph 3.14); agreements for project execution have been signed with other coexecuting agencies (paragraph 3.13) the annual work plan (AWP) is submitted during the fourth quarter of each year (paragraph 3.15); the monitoring and evaluation system is implemented (paragraph 3.26); the midterm evaluation is commissioned (paragraph 3.27); and the final evaluation is commissioned (paragraph 3.28).</p> <p>Exceptions to Bank policies: None.</p>				
<p>Project consistent with country strategy: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <p>Project qualifies as: SEQ <input checked="" type="checkbox"/> PTI <input type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> % of beneficiaries <input type="checkbox"/></p> <p>Procurement: See paragraph 3.16. For procurement of goods and services to be financed by this loan, the Bank's current procedures will be adopted and incorporated into the loan contract.</p> <p>Verified by CESI on: 28 October 2005.</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.*

* 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.

** At the borrower's request.

I. FRAME OF REFERENCE

A. The City of Valparaíso

1. Rise and fall

- 1.1 The city of Valparaíso, located on the Pacific coast 120 kilometers from Santiago, and with a population of approximately 275,000, had its period of greatest growth and prosperity during the nineteenth century as a result of port activity and the development of trade. At that time it became the second-largest city in Chile and the largest port on the southern Pacific coast. During the twentieth century,



the city gradually lost its main competitive advantages due to adverse events, policies, and trends. These include the opening of the Panama Canal (1914), the opening of the Port of San Antonio in Chile (1916), the

concentration of economic growth and development in Santiago, and technological developments in transportation and communications. This gradually eroded the city's economic and social foundations, and Valparaíso went from being a vibrant economic hub in the latter half of the nineteenth century to its current state of stagnation, underdevelopment, and relative impoverishment (see Table I-1).

TABLE I-1

Some socioeconomic indicators
(2000-2002)

	Valparaíso district	Santiago metropolitan area	Chile
Monthly family income	US\$710	US\$1,080	US\$870
Poverty rate	25%	16.1%	20.6%
Unemployment rate	15.2%	12.4%	13.5%

Sources: 2000 CASEN Survey and 2002 Census

2. Current conditions and challenges for Valparaíso

a. Urban infrastructure and environment

- 1.2 Initially located on a narrow plain between the coastline and the foothills of the mountains surrounding the bay, the city of Valparaíso found in the course of its development that it needed more land in the plain. This was accomplished by infilling the coast and scarping the hills, and the main squares, promenades, and buildings of historical interest were located there. Also, the population in the hills

grew denser, first near the edges of the ravines and later in the rest of the hills. Due to the steepness of the hills, this development resulted in a labyrinthine urban geography with unique buildings strongly influenced by French and British architectural styles that were brought over by eighteenth-century European immigrants. There are footpaths to the plain and between the hills, and these paths feature steps, small passageways, squares, lookout points, and vehicular access on narrow, winding streets. A system of funiculars was also installed. Now in poor condition but still in operation, this system links the plain to the first cornice of overlooks in the hills. The lookout points, in turn, are linked to the residential areas in the hills.

- 1.3 Due to the economic decline described above, and in comparison with other Chilean cities, Valparaíso has a large number of roads and public areas in poor condition, abandoned and/or dilapidated landmark or regular buildings, and vacant lots. Meanwhile, the city has benefited from an expansion of local universities that currently serve 60,000 students.¹ Also, as a result of renewed interest in Valparaíso from international and domestic travelers, some buildings are being rehabilitated to provide lodging and restaurant space.
- 1.4 As for residents' access to urban facilities, the situation in Valparaíso is comparable to that in other Chilean cities except as concerns access to squares, green areas, and sports facilities, where access is somewhat lower than the national average. All residents have good access to mass transportation and retail centers on a daily basis. Neighborhood businesses are considered safe and generate community relationships that are essential for the formation of social capital in urban areas.
- 1.5 The urban structure described in paragraph 1.2 and other traces of the city's past as a port city and industrial hub were decisive factors in the declaration of the city's historical downtown as a World Heritage Site by the United Nations Educational, Scientific, and Cultural Organization (UNESCO). This reaffirms Valparaíso as a major tourist attraction and cultural center in need of further development.

b. Productivity and employment

- 1.6 The loss of Valparaíso's competitive advantages has led to the gradual closure of productive businesses or their departure to other cities in Chile, as well as to demographic and economic stagnation. During the last four decades, the population of Valparaíso grew by only 10%, from 250,000 to 275,000, while other municipios in the metropolitan area it grew by a factor of 3.4, and the population of Santiago increased by a factor of 2.8. Also noteworthy is the exodus of well-paying, middle-class jobs—as well as the services that these jobs require—to Santiago or higher-growth locations in the metropolitan area. In terms of migration, the city has

¹ Currently four traditional universities—Universidad Católica de Valparaíso, Universidad Federico Santa María, Universidad de Valparaíso, and Universidad de Playa Ancha—are located in Valparaíso as well as other private, nontraditional universities, which together provide jobs for about 5,500 people.

been receiving a flow of immigrants who have lower educational levels and lower-skilled occupations than do those who have been emigrating.

- 1.7 Workers' productivity in Valparaíso compared to that of workers in Viña del Mar and Santiago—measured as average wages in each city—is significantly lower (25%). Also, Valparaíso's economy features primarily tertiary sector jobs, especially trade (21%) and services (37%), with a high rate of jobs in the informal sector (40%). Open unemployment is greater in some areas than in surrounding municipalities and in Santiago.
- 1.8 It is obvious that in order to increase productivity and decrease unemployment, the city needs a major, targeted intervention to promote new productive activities, based on those sectors in which the city has comparative advantages.

c. Social issues

- 1.9 Poverty indicators in the city of Valparaíso are greater than the national average and in surrounding municipalities. Thus, most residents are in socioeconomic groups considered to be in the middle- to lower-middle ranges. Social research has shown that, due to the city's historic position as well as its current condition, residents maintain deep roots and a strong sense of identification with the city, great pride in its historical and cultural heritage. However, their longstanding self-esteem has eroded as a result of the city's decline.
- 1.10 The population of Valparaíso has high rates of participation in civil society organizations (CSOs) (38%), which reflects levels of social capital greater than those of neighboring municipalities and the national average. The organizations with the highest rates of participation are sports clubs, religious organizations, and neighborhood councils, but there are also mothers' organizations, job workshops, and senior citizens' organizations. Despite the weaknesses in the management capacity of CSOs in Valparaíso, they are considered an important asset that should be supported in the search for solutions to local and municipal problems. In particular, neighborhood councils are prime venues for identifying the most pressing challenges and issues and for maximizing the potential and efficiency of urban public interventions.
- 1.11 The main problems identified and prioritized by Valparaíso's residents [known as "porteños"] are as follows: (i) unemployment; (ii) lack of efficiency and capacity in urban planning and management by the authorities; (iii) delinquency and lack of safety, which are worse in the upper part of the hills; and (iv) the lack of refuse collection and beautification (streets and homes in poor condition) and excessive litter.

d. The municipality and municipal services

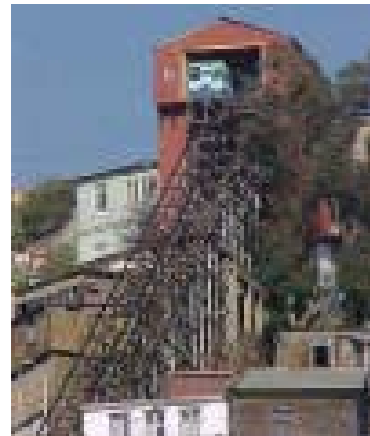
- 1.12 The institutional assessment of the Ilustre Municipalidad de Valparaíso [Municipality of Valparaíso] (IMV) indicates that, in view of its current functions, the municipal government's human resources are poorly distributed, with excessive

and redundant departments (30) and deficient management and control systems. There is also a lack of technical and professional staff, even as there is an excess of support staff. In terms of its ability to pay, the municipal government also has significant financial liabilities that need to be serviced. As a result of this situation, the services administered by the municipal government are generally expensive and/or of unsatisfactory quality, as is the case with garbage collection, the funiculars, and the maintenance of public facilities, buildings, squares, and thoroughfares.

- 1.13 In order to be able to administer current heritage resources and to plan and lead the necessary urban development process, the IMV requires the following, on a priority basis: (i) a new organizational structure with a restructuring of key processes; (ii) new skilled personnel and a restructuring of human resource management; (iii) a new operating system for tax collection; (iv) new computer systems, including hardware and software; and (v) outsourcing of services and rationalization of personnel. As for finances, it urgently needs to increase its own revenue through more effective collection efforts, and negotiate the terms of its debt in order to regain creditworthiness over the medium and long terms.

3. The city's potential

- 1.14 In addition to the governmental functions that it houses (seat of government of Region V and the municipality, the main naval base, site of the Chilean Congress, and headquarters of the Cultural Council), Valparaíso has the potential to develop economic activity related to: (i) its recognized historical value as a World Heritage Site; (ii) its strong sense of urban identity, which sets it apart among Chilean cities; and (iii) the universities located in the city (with 60,000 students). In terms of economic activity, an analysis of the city's potential suggests directing efforts to develop and strengthen: (i) domestic and international tourism in all its facets, including cultural, recreational, and summer-vacation tourism; (ii) higher education as an activity that is already well developed and can grow and diversify its supply of services and increase its multiplier effects on the local economy; and (iii) the real estate sector, designed to serve the demands from growth in the aforementioned sectors, and also to provide a new option for second homes.



4. Recent actions aimed at revitalizing the city

- 1.15 With the arrival of the twenty-first century and with the recognition of the historical and cultural value that Valparaíso represents for Chile, especially in the context of the celebration of the bicentennial of Chilean independence that will take place in 2010—and in recognition of the economic potential of the city of Valparaíso—the

Chilean government, which was also searching for greater regional balance and equity, decided to attach priority to a process of revitalization for the city. The proposed program would contribute to this process.

- 1.16 Since the mid-1990s, the Chilean government has been carrying out a series of actions designed to preserve and revitalize the city. Infrastructure investments include the following: improvement of the highway between Santiago and Valparaíso (with IDB support, CH-0167), which has significantly reduced the travel time between these two cities; a new southern access route to the port, which will redirect trucks that currently go through the city to get to the port; a new logistical center located on the outskirts of the city; and the improvement of the suburban railway system between Valparaíso and locations in the metropolitan area located further inland.
- 1.17 Improved port access will free up approximately 20 hectares of coastal land for urban use, and this will improve the link between the city and the coastline. To this end, the Empresa Portuaria de Valparaíso [Valparaíso Port Authority] is in the process of tendering the concession for developing this coastline, with private investment expected to be on the order of US\$100 million.
- 1.18 In addition to large infrastructure projects, various government agencies at the national, regional, and local levels are carrying out revitalization efforts. In the housing sector, the Ministry of Housing and Urban Development (MINVU) provides direct subsidies to those purchasing homes in restored heritage properties. As a result of the subsidy for heritage site rehabilitation, 20 properties have been reclaimed, yielding some 160 apartment units. With the support of subsidies from the Corporación de Fomento de la Producción [Chilean Economic Development Agency] (CORFO), 12 buildings have been rehabilitated for productive uses related to culture, recreation, and tourism, and another seven projects are under way. Meanwhile, private-sector participation is on the rise, with the construction of new apartments—located mainly toward the hilltops—for middle-income households that can gain access to mortgage financing. In terms of public areas, the MINVU, in the context of the program for the restoration of landmark public areas, has carried out a number of projects to improve squares, walkways, passageways, and streets in the port area and the hillside promenades.
- 1.19 At the institutional level, the Chilean government set up the Valparaíso Plan Presidential Commission in 2002, tasked with advising the Chilean president on the formulation of policies, programs, and projects conducive to the city's development. This commission has coordinated the actions of public- and private-sector agents in carrying out specific sector projects, especially in relation to opening the coastline, promoting investment, and promoting the city as a historic site.
- 1.20 Despite these achievements, the city faces several challenges in consolidating a process of sustainable economic and social rehabilitation based on the historical value of the city's buildings and urban design and on taking full advantage of its

competitive advantages. The problems that are being addressed include the following: (i) activities along the port and coastline that act as a barrier between the sea and the city's residents—this problem is being addressed with the scheduled opening of the coastline through the real estate project being tendered by the Empresa Portuaria de Valparaíso; (ii) traffic congestion in the access routes to the city due to port activities, which will be solved by opening the southern access route to the port, now in its final construction stages; (iii) deficiencies in the public transportation system, currently the subject of a bidding runs program by the Ministry of Transportation; and (iv) the environmental risk caused by erosion of the ravines, which has prompted the Ministry of Public Works (MOP) to develop the Master Rainwater Plan.

- 1.21 The interventions mentioned in paragraph 1.19 have encountered significant limitations, such as: (i) efforts to reclaim public areas have progressed slowly because they depend on financing from the regional government that is subject to intense demand from other localities in Region V; (ii) the housing subsidies provided from the MINVU are only for housing purchases, and not for improvements by owners or solutions to the problems of slums and tenement houses, both of which are necessary to reverse the decline of a historical area; and (iii) CORFO's productive incentives are not flexible enough to meet the development needs of a specific area of the city, as might be the case with the rehabilitation of a particular landmark building to adapt it to productive use.
- 1.22 For these reasons, the problems that still must be addressed in order to provide incentives for private investment and achieve sustainable development are as follows: (i) the gradual physical deterioration of urban assets—especially buildings and public spaces in heritage areas—which require interventions with new modalities and instruments; (ii) deficient city services in such areas as garbage collection, cleaning, and pest control; (iii) the lack of clear policies and a master plan for private real estate development; (iv) the lack of an institutional structure to help the city achieve effective and participatory urban management; and (v) a lack of skills and resources among residents that will allow them to participate productively in the city's development. These are the problems to be addressed by this operation.

B. The country and municipal strategy in the sector

- 1.23 Chile's policies on development and public-sector investments involving municipalities come out of the national sector ministries which, in each of the regions into which Chile is divided, are coordinated through a Consejo Regional de Desarrollo [Regional Development Council] (CORE).² Because the Chilean

² Chile is divided into 13 administrative regions, and each region has a regional government that is headed by an *Intendente* [governor], appointed by the President of the Republic, and includes a CORE, comprised of the governor and councillors, who are appointed by an electoral college consisting of municipal *concejales* [municipal council members]. One of the responsibilities of the CORE is to approve municipal master plans and inter-municipal plans, as well as to distribute funds from the Fondo Nacional de Desarrollo Regional [National Fund for Regional Development] (FNDR).

government and its agencies are primarily concerned with the equitable provision of public services to individuals and regions, and with maintaining overall macroeconomic equilibrium, the municipio must play a leading role in urban development (and rehabilitation). In effect, its political autonomy (mayors and *concejales* are elected) and legal autonomy (municipalities are autonomous agencies under public law)—as well as its territorial terms of reference (e.g., to approve master plans and grant construction permits)—make the municipio a critical actor in the efforts of the national and regional government in its territory. Because of this intergovernmental relationship, the greatest challenge in the city's revitalization program is that of coordinating and reaching consensus on investments that must be channeled through various agencies, such as the municipal government, the MOP, the MINVU, CORFO, and the Fondo de Solidaridad e Inversión Social [Solidarity and Social Investment Fund] (FOSIS).

- 1.24 The Chilean government, aware of these limitations, embarked on a number of reforms in 2001 that, among other initiatives, gave rise to: (i) the Shared Urban Financing Act (LFUC—Law 19,865), under which municipal governments (and Housing and Urban Development Services, SERVIU) may enter into participation agreements with third parties for the purposes of procuring goods or executing, operating, and maintaining urban projects, in exchange for a consideration that may consist in granting them rights over movable or immovable property and/or the use of one or more properties or projects; (ii) the Municipal Revenue Act II (Law 20,033), which promotes greater tax revenues through a higher real estate tax that would augment the municipal treasury; and (iii) the amendment to the Decentralization of and Participation in District Master Plans Act. Also, legislation has been proposed to amend the Urban Development and Buildings Act in order to provide incentives for better integrated and more sustainable city buildings. While these changes will facilitate urban development in Chile, the challenge of institutional coordination will nonetheless persist.
- 1.25 Through this operation the government seeks to: (i) in the short term, ensure the implementation of an institutional intervention model that will allow each of the government agents with responsibility for making decisions related to investment, operations, and maintenance of public services and spaces—and to the promotion of economic and social development—to be consistent with a shared strategy for revitalization of the city; (ii) over the medium term, consolidate a permanent institutional structure that will enable efficient coordination among government agencies and with the private sector for the continued development of the city; (iii) ensure that the program's activities and investments are designed based on a comprehensive approach, have a range broad enough to ameliorate the negative trends described above, and are performed in an appropriate sequence to ensure expected outcomes.

C. The Bank's strategy with the country, experience in the sector, and lessons learned

1. The Bank's strategy with the country

- 1.26 The Bank's strategy with Chile is focused on supporting: (i) initiatives that increase competitiveness and productivity by making the provision of public services more efficient and effective; (ii) actions conducive to reducing social and regional inequalities and improving living standards, with particular emphasis on vulnerable low-income groups; (iii) mechanisms that lead to increased citizen participation in the development process, as well as support for the modernization of the State process and the introduction of improvements in governance, with emphasis on decentralization and improved coordination in the delivery of public services. The proposed program is particularly related to the first objective of this strategy, as it finances the delivery of public services needed to make the city of Valparaíso more competitive. Also, it will contribute to the third objective by implementing participatory, innovative mechanisms for promoting urban development and reclaiming heritage urban areas.
- 1.27 The program is also part of the Bank's subnational development strategy, which guides the Bank in supporting the implementation of reforms and institutional strengthening required to establish efficient, democratic subnational governments capable of taking on the functions of: (i) promoting economic development within their jurisdictions; (ii) providing services in order to ensure a high quality of life for residents; and (iii) providing infrastructure essential to the well-being of residents and to gains in economic activity.

2. Experience in the sector and lessons learned

- 1.28 An assessment of successful international experiences in urban rehabilitation and the Bank's experience in designing and executing previous projects—the Quito Historic Center rehabilitation program (EC-0169 and EC-L1006) and the São Paulo downtown renewal program (BR-0391)—reveals that: (i) urban rehabilitation requires sustained, long-term efforts, and therefore institutional arrangements for execution play a central role; (ii) successful experiences have succeeded in implementing institutional arrangements capable of coordinating the actions of various public actors and levels of government that are involved, and coordinating the actions of the public and private sectors in an efficient and sustained manner; (iii) investments should feature a sufficient scale of intervention to impact on the target area, and execution should be time focused, so as to reverse the deterioration process that affects the area; (iv) investment programs should include interventions that address in a coordinated and comprehensive manner the main problems causing the deterioration (economic slowdown, building line of the community and inadequate municipal management) and generate positive externalities to attract new investments and residents (rehabilitation of the urban environment); and (v) interventions should be executed in a strategic sequence so as to reverse the image of deterioration and decline and to attract private investment. These lessons

are being incorporated in the design of this operation. The experience of the Corporación de Desarrollo de Santiago [Santiago Development Agency] in developing the western part of downtown shows that the private sector responds positively to public-sector leadership expressed in well-defined, stable plans and investments for improving public spaces and eliminating activities that generate negative externalities.

- 1.29 As for execution mechanisms, it should also be noted that Chile has extensive experience with programs that require subnational coordination and execution—e.g., the program to improve the efficiency and management of regional investment (CH-0161) and sustainable community-based tourism development in Chiloé and Palena (CH-0172). This experience suggests that even though it poses some challenges in terms of planning, programming, and coordinating investments, the Regional Development Branch (SUBDERE) is highly reliable as an executing agency in fiduciary and coordination areas. The experience of the Corporación de Desarrollo de Santiago indicates that it is possible to use special legislation to create institutions capable of planning and coordinating investments more directly at the local level, with public and private entities contracted for works and services and to undertake real estate transactions.

D. Program strategy

- 1.30 The strategy adopted by the program to consolidate and accelerate the urban rehabilitation process in Valparaíso is: (i) to focus investments in the geographical area and sectors that are best suited to tap the city's natural competitive advantages to create new economic activity and attract new residents; (ii) to maintain a comprehensive approach by incorporating urban-development, economic, social, and municipal considerations, in order to ensure sustainability of investments; and (iii) to incorporate institutional requirements for carrying out program activities and strengthening the effective comprehensive management of the city's long-term urban development.

- 1.31 Pursuant to the assessment of city's potential for generating new economic activity (paragraph 1.14), the intervention of the program is fully focused on the most significant heritage neighborhoods in the area that was declared a World Heritage Site and its buffer areas (see attached map). Furthermore, these areas of intervention (integrated heritage neighborhoods) would be given priority for



activities critical to improving services that are geographically indivisible and essential for the proper functioning of the city and the geographical areas targeted by the program.

- 1.32 The program contains a strong public-private cooperation component for productive purposes that involves: (i) ensuring that the executing agency and the municipal government have the institutional capacity to appeal to and hold discussions and make plans with the private sector on productive investments for Valparaíso; to this end, among others, the Tourism Development Department is being created and the IMV's Local Development Department will be strengthened; (ii) supplementing the types of incentives that CORFO currently has for private-sector projects of proven profitability with a higher subsidy to stimulate larger productive investments; (iii) taking advantage of the new Shared Urban Financing Act (see paragraph 1.24) to encourage the private sector to finance and manage projects of public interest; (iv) scheduling and developing activities for promoting and attracting investments, including events that would attract crowds and events to market the city at the national and international levels; as well as prospective studies for the development of tourism, university services, and the real estate market; (v) improving the city's regulatory framework to provide greater investment security to the private sector; and (vi) a proposal for creating an institutional structure with authority for establishing public-private incentives.
- 1.33 At the social level, social capital will be strengthened in order to empower communities to solve local problems. During program preparation, both its conceptual foundations and the investments it finances have been subjected to an extensive citizen-participation process that featured events with government personnel, opinion leaders (academics, CSOs, and businessmen), and neighborhood groups. This participatory process will continue during the execution period with the new sets of investments that are proposed.
- 1.34 At the institutional level, the program proposes implementation of the Municipio Strengthening Plan, which includes a municipal reorganization that emphasizes planning and control; the streamlining of human resources; new management, tax collection, and computer systems; and a proposal for financial rehabilitation. In this regard, the IMV intends to align its main performance indicators (staff per 1,000 residents, own income/total income) with best practices observed in Chile.

E. Value added of the Bank's participation

- 1.35 The Bank has collaborated with and supported the Chilean authorities and specialists in preparing the program. It has brought international experts to Valparaíso and financed, through a regional technical-cooperation project, educational visits to Quito, Ecuador, and Recife, Brazil, by authorities and specialists from the national counterpart.

F. Coordination with other international agencies

- 1.36 Due to its place in the history of Europe's naval and economic expansion, several European countries have expressed particular interest in the renaissance of Valparaíso. The program and the Bank have joined efforts with representatives of these countries. Meanwhile, the government of France collaborated in the preparation of the program through the French Technical Cooperation Fund for Consultancy Services and Training Activities (ATN/FC-8768), which allowed for the support of French experts in matters related to renewal, housing, management, and others. The Spanish government has collaborated with the mayor through the direct cooperation of an expert in the development of heritage-site master plans. Currently a request for technical cooperation to examine natural-risk management in Valparaíso is in the process of being submitted to the Bank-administered Italian Consulting Firms and Specialized Institutions Fund, which could contribute to the subsequent development of the program. Also noteworthy is the fact that discussions are well advanced to establish a French-German cultural center in some of the publicly-owned historical buildings—and to have this center assume responsibility for maintaining the property.

II. THE PROGRAM

A. Objectives

- 2.1 The objective of the program is to contribute to the revitalization of the city of Valparaíso by building on the city's urban heritage as the basis for new economic, cultural, and social activities that will benefit the city's residents. The specific objectives are: (i) to reclaim selected territorial areas and resolve critical problems related to urban operations in order to stimulate productive private investment and attract new residents to the city; and (ii) to provide the city with the institutional structure and regulations that will allow for modern urban development management.

B. Description

1. Urban rehabilitation (US\$51.8 million)

- 2.2 The objective of this component is to improve the city's urban environment through investment in public spaces, roads, and buildings located in parts of the city that have potential for economic development. Also, investments are to be made in strategic services and facilities for the proper operation of the city as a whole. This component includes financing for advisory and consulting services, competitions, and for prefeasibility, feasibility, design, business, and other studies necessary for final design and execution of the projects.

a. Integrated heritage neighborhoods (IHNs) (US\$43.6 million)

- 2.3 The objective of this subcomponent is to reclaim well-defined territorial areas with historical value and economic potential, through investments in (i) roads and public spaces; and (ii) real estate (public and private).

(i) Improvement of roads and public spaces (US\$18.7 million)

- 2.4 This consists of projects to rehabilitate and improve avenues, streets, squares, promenades, steps, and footpaths, ravines, street lights, the laying of power and telephone lines under the ground, with their corresponding signage, street furniture, drainage, and landscaping.

(ii) Rehabilitation of public properties (US\$19.3 million)

- 2.5 This consists of: (i) construction or improvement of the funiculars (inclines); (ii) rehabilitation of landmark buildings for public, commercial, residential, or service purposes; and (iii) construction, reconstruction, or rehabilitation—for residential, commercial, or service purposes—of other buildings that are considered key to making a qualitative improvement in the urban environment of IHNs. The

properties considered to be subject to this financing are owned by the IMV or other government entities.

(iii) Rehabilitation of private properties (US\$5.5 million)

- 2.6 This consists in financial incentives aimed at private owners to encourage them to restore private properties considered key to making a qualitative change in the urban environment of IHNs, according to the following categories: (i) improving the funiculars; (ii) rehabilitating landmark buildings for residential, commercial, and service purposes; (iii) improving other buildings for residential, commercial, or service purposes; (iv) restoring tenement housing and converting it into condominiums; (v) basic improvement of deteriorated housing in terms of electrical facilities, plumbing fixtures, roofs, façades, and structural elements, as these are the main risk factors in the destruction of historical buildings. Also, financing may be provided for the purchase of real estate by the IMV or the Ministry of National Assets for renovation pursuant to item (ii) above (paragraph 2.5) and/or eventual disposal for purposes of its renovation and development.

b. City services and facilities (US\$8.16 million)

(i) Solid waste management (US\$4.79 million)

- 2.7 The objective is to improve the comprehensive management of residential solid waste in the city by involving the private sector and fully or partially replacing the current force account system. This includes: (i) preparing the bidding documents and conditions for hiring a private firm to provide urban cleaning services and collect solid wastes in the city; (ii) financing incentives for streamlining human resources working in the refuse collection sector; (iii) purchasing equipment; (iv) conducting a publicity campaign to improve the population's waste management habits; and (v) training for municipal oversight.

(ii) Pest control (US\$1.65 million)

- 2.8 The objective is to provide a sustainable solution for the problem of urban pests (primarily stray dogs, ticks, and mice) by, among other things: (i) carrying out immediate pest control measures (both chemical and reproductive methods) and (ii) conducting publicity and community education campaigns.

(iii) Others (US\$1.72 million)

- 2.9 The objective is to finance studies and equipment required for the proper operation of the city, such as: (i) a study of design, color, equipment, and lighting guidelines; (ii) a system of signage designed for residents, users, and tourists; (iii) a system of security cameras in the city's public spaces; and (iv) others.

2. Economic and sociocultural development (US\$6.93 million)

a. Economic development (US\$4.69 million)

- 2.10 The objective is to promote private investment through various forms of public-private cooperation. This includes: (i) a competitive fund of incentives for the development and modernization of microenterprises and small businesses, based on granting a subsidy for projects of proven profitability for commercial, service, and similar purposes, to be implemented in the IHNs; (ii) the formulation and development of the Tourism Plan for the city of Valparaíso that includes contracting activities to promote and attract investment; (iii) development of a strategic study for the “Ciudad Universitaria,” for the purpose of analyzing and developing business opportunities related to the supply of services to students and others; (iv) a heritage tourism training program, and (v) a proposal for creating an institutional structure with authority for establishing public-private incentives.

b. Sociocultural development (US\$2.24 million)

- 2.11 The purpose of the sociocultural development component is to create skills at the local level for recovering and disseminating Valparaíso’s cultural heritage and identity, as well for community strengthening, self-management and operation as a network. Specifically, the following activities will be carried out: (i) a school education project that includes training teachers, developing curriculum and materials, and using these materials in the classroom for the rescue, awareness, and appreciation of the various elements that make up the city’s heritage—both tangible and intangible—and its cultural identity; (ii) training of community leaders in community leadership, development and management of social projects, infrastructure, and basic community services, problems related to vulnerable groups, road education, risks and resources for disasters, etc.; and (iii) a fund for community initiatives that consists in providing resources in the municipality of Valparaíso to carry out prioritized community initiatives in a participatory manner.

3. Institutional development of the IMV (US\$4.5 million)

- 2.12 The objective of this component is to contribute to the comprehensive reorganization and strengthening of the municipal government of Valparaíso with emphasis on financial management, planning, and urban/heritage management, in order to provide it with the skills to lead the process of urban revitalization and development. This includes: (i) contracting advisory services and implementing management systems; (ii) procuring and implementing computer systems; (iii) financing the hiring of new skilled staff to carry out functions critical to the municipal government’s performance; (iv) financing incentives to rationalize the municipal government’s staffing structure; (v) preparing a Master Plan for the area declared a World Heritage Site by UNESCO, which will elaborate on existing assessments of the area, develop proposals for intervention, review the relevant legal and regulatory framework, and propose a long-term institutional structure for managing the area; and (vi) updating of the instruments for physical planning.

4. Communication and participation (US\$1.9 million)

- 2.13 The objective of this component is to disseminate information on the program and its benefits and to promote citizen participation in determining actions to be carried out. This includes developing and implementing: (i) a publicity strategy to keep residents informed of the status and benefits of program activities and disseminating the plans and measures for the care and preservation of heritage sites in the municipality; and (ii) a Citizen Participation Plan whereby the public is regularly and promptly informed and forums to exchange opinions are created in order to assist in the decision-making process during program execution.

C. Cost and financing

- 2.14 The total cost of the program is estimated at US\$73 million. Of this amount, the Bank will finance US\$25 million, and the remaining US\$48 million will be provided by the local counterpart, as shown in Table II-1. An estimated breakdown of investments appears below.

Table II-1
Program cost and financing
(millions of U.S. dollars)

CATEGORIES	IDB	LOCAL	TOTAL	%
I. Administration and supervision	0.18	3.04	3.22	4.4%
I.1 Administration	0.00	2.52	2.52	3.5%
I.2 Evaluation and supervision	0.00	0.52	0.52	0.78%
I.3 PROPEF individual operation	0.18	0.00	0.18	0.2%
II. Direct costs	24.82	40.26	65.08	89.2%
II.1 Urban rehabilitation	20.94	30.81	51.75	70.9%
II.1.1 Integrated heritage neighborhoods	17.67	25.92	43.59	59.7%
II.1.1.1 Improvement of roads and public spaces	7.48	11.25	18.73	
II.1.1.2 Rehabilitation of public buildings	7.92	11.4	19.32	
II.1.1.3 Rehabilitation of private properties	2.27	3.27	5.54	
II.1.2 City services and equipment	3.27	4.89	8.16	11.2%
II.1.2.1 Solid waste management	1.92	2.87	4.79	
II.1.2.2 Pest control	0.66	0.99	1.65	
II.1.2.3 Other	0.69	1.03	1.72	
II.2 Economic and sociocultural development	2.78	4.15	6.93	9.5%
II.2.1 Economic development	1.88	2.81	4.69	6.4%
II.2.2 Sociocultural development	0.9	1.34	2.24	3.1%
II.3 Institutional development of the IMV	0.00	4.50	4.50	6.2%
II.4 Publicity and participation	1.10	0.80	1.90	2.6%
Subtotal	25.00	43.30	68.30	93.6%
III. Financial costs	0.00	4.7	4.7	6.4%
III.1 Credit fee	0.00	0.20	0.20	
III.2 Inspection and supervision	0.00	0.00	0.00	
III.3 Interest	0.00	4.5	4.5	
Total	25.00	48.00	73.00	100.0%
%	34%	66%	100%	

III. PROGRAM EXECUTION

A. Borrower, guarantor, and executing agency

3.1 The borrower will be the Government of Chile.

B. Program execution and administration

1. Executing agency

3.2 The executing agency for this program will be SUBDERE. SUBDERE's responsibilities include: (i) signing institutional participation agreements with coexecuting agencies; (ii) monitoring compliance with contractual terms and conditions; (iii) carrying out overall supervision of the operation; (iv) submitting to the IDB disbursement requests and justification for the use of funds, for which it will provide appropriate documentation; (v) maintaining accounting records and supporting documentation; (vi) maintaining the relationship with the Budget Division of the Ministry of Finance (DIPRES) in matters related to cash flow planning and disbursements; (vii) submitting documentation of procurement processes as well as copies of all procurement-related contracts to the IDB for nonobjection; (viii) issuing financial statements and semiannual progress reports; and (ix) contracting advisors and commissioning studies, and others that are not the responsibility of the coexecuting agencies and are necessary for program execution.

3.3 A program executing unit (PEU) will be formed within SUBDERE that will be administratively attached to the Municipalities Division of SUBDERE, and its functions will include: (i) providing technical and administrative supervision and coordination for program execution; (ii) planning overall execution of the program and the annual work plans (AWPs); (iii) designing and implementing mechanisms for monitoring, recordkeeping, documentation procedures, and supervision for the program; (iv) providing professional, conceptual, and technical support to the coexecuting agencies in developing, tendering, evaluating, and monitoring studies and projects; (v) ensuring that projects and activities financed by the program comply with the anticipated eligibility requirements agreed upon with the Bank; (vi) ensuring compliance with the procedures described in the contract for procurement of works and goods and contracting of consulting services; (vii) taking responsibility for monitoring and subsequently evaluating program activities; (viii) preparing and presenting the program's progress reports to the executing agency and the Bank; and (ix) advising and informing the program's Board of Directors on the progress of the program and its adherence to the strategic and policy guidelines it defines. **As a condition precedent to the first disbursement of the loan, the program executing unit (PEU) must be up and running.**

3.4 In addition, there will be a *Program Board of Directors (PBD)*, which will consist of the Assistant Secretary of SUBDERE, the mayor of Valparaíso, and the director of DIPRES. The PBD will have the following responsibilities: (i) to monitor the

strategic development of the program; (ii) to set priorities for developing the projects in view of the guidelines set forth for the program; (iii) to approve the AWP; (iv) to monitor timely compliance with the program goals and objectives; (v) to coordinate policy with sector and regional entities, and to determine the publicity strategy; and (vi) identify the coexecuting agencies for specific projects.

2. Coexecuting agencies

a. The municipal government of Valparaíso (IMV)

- 3.5 As the primary coexecuting agency of the program, the IMV will work with the PEU, planning the general execution of the program, and is expected to execute approximately US\$30 million in works, equipment, consulting services, land and building purchases, human resource rationalization, and hiring of staff. It will take on the responsibilities listed in paragraph 3.12 below, which are the responsibilities of all coexecuting agencies of the program. Based on the Bank's institutional assessment and consultants hired for this purpose, the unit of the IMV that will serve as the program subexecuting unit (PSU-IMV) and the areas of the IMV that need to be strengthened in order to be able to carry out the program activities that have been identified. **As a condition precedent to the first disbursement of the loan, the subexecuting unit in the IMV (PSU-IMV) must be up and running.**

b. Other coexecuting agencies

- 3.6 The national government entities listed below are expected to participate as coexecuting agencies of the activities indicated. The IMV, however, in its role as the primary coexecuting agency, may take charge of the execution of any of the activities listed below, subject to authorization by the Bank and verification of its technical, institutional, and legal capacity to do so.

(i) Dirección de Obras Hidráulicas [Hydraulic Works Division] in the Ministry of Public Works (DOH-MOP)

- 3.7 This entity is responsible for planning, executing, and maintaining the primary rainwater evacuation and drainage network in the country. It will be responsible for designing and carrying out projects for the comprehensive improvements to ravines.

(ii) Dirección de Arquitectura [Architecture Division] of the Ministry of Public Works (DA-MOP)

- 3.8 This national agency is responsible for managing and developing investments in public-sector construction projects through all stages and carrying out preservation projects of architectural heritage sites. Also, it acts under the mandate of third parties for the design and construction of public construction projects in the country. It will be responsible for the design and execution of the rehabilitation of public landmark buildings and other buildings that require it due to their complexity.

(iii) Servicio de Vivienda y Urbanización [Housing and Urban Development Service] of the MINVU (SERVIU)

- 3.9 This regional entity of the MINVU is responsible for and has recognized experience in managing public housing subsidies and in carrying out urban public works. It will be responsible for executing the subsidies subcomponent for basic housing improvements and designing and carrying out road improvement projects.

(iv) Corporación de Fomento a la Producción [Chilean Economic Development Agency] (CORFO)

- 3.10 This national agency is responsible for promoting productive development in Chile by helping to finance investments, promote quality, productivity, and innovation in companies, and promote investments. It has recognized experience in the design and management of funds through competitions, designed to promote productive development. It is responsible for designing and executing the subcomponent involving rehabilitation of private landmark buildings for promoting production, as well as the incentives fund for the development and modernization of microenterprises and small businesses.

(v) Fondo de Solidaridad e Inversión Social [Solidarity and Social Investment Fund] (FOSIS)

- 3.11 This national entity, whose purpose is to finance special social development plans, programs, projects, and activities, has specific experience in the field of vocational and job skills training related to heritage-site tourism. It will be responsible for designing and executing the heritage tourism training component.

c. Responsibility of coexecuting agencies

- 3.12 Each coexecuting agency will be responsible for the following: (i) complying with the requirements for participating in the program, and negotiating and signing the respective agreement with SUBDERE, which will indicate, among other matters, the project(s) for which the coexecuting agency will be responsible; (ii) complying in a timely fashion with the obligations under the Participation Agreement; (iii) forming, organizing, and implementing the PSU, including physical facilities, equipment, operating, computer, and monitoring systems, recordkeeping, and personnel; (iv) designing and implementing the necessary monitoring and supervision procedures in coordination with the PEU; (v) cooperating with the PEU in preparing the AWP, and in preparing and submitting the semiannual reports on program execution to the PEU; (vi) implementing and complying with the procedures described in the loan contract; (vii) authorizing eligible payments for services rendered to satisfaction and in accordance with the corresponding contracting tool; (viii) processing disbursement requests in a timely fashion for the PEU; and (ix) maintaining accounting records and support documentation, and preparing required financial statements in timely fashion.

C. Normative documents for the program

1. Agreements

- 3.13 In addition to the loan contract to be signed between the borrower and the Bank, the program will be governed by participation agreements to be signed by SUBDERE and the coexecuting agencies. The agreement with the IMV is considered essential for beginning program execution, while other institutions need to sign agreements prior to the start of their activities. **As a condition precedent to the first disbursement of the loan, the subsidiary agreement between the executing agency and the IMV must have been signed and must have entered into effect. The participation of other entities as coexecuting agencies will require the prior signature of the corresponding subsidiary execution agreements with the executing agency, with wording previously agreed upon with the Bank.**

2. Operating Regulations

- 3.14 The Operating Regulations for the program consist of General Operating Regulations (GORs) for the program and five (5) Specific Operating Regulations (SORs), one for each of the subcomponents: (i) conversion of tenements; (ii) basic improvements to dilapidated housing; (iii) improvement of private buildings for productive purposes; (iv) the incentives fund for microenterprises and small businesses; and (v) funds for community initiatives. **As a condition precedent to the first disbursement of the loan, the GORs must have entered into effect.** The GORs will enable the execution of approximately 85% of program funds. The general guidelines for the SORs are specified in the GORs, and the executing agency will prepare and submit for the Bank's approval each set of final SORs as needed at the beginning of each activity during program execution. **The implementation of the SORs for each of the activities mentioned in this paragraph will be conditions precedent to disbursements for expenses related to each of these activities.** Table III-1 below shows the basic eligibility criteria for investments in this program, as included the GORs.

Table III-1: Program eligibility criteria	
A. Integrated heritage neighborhoods (IHNs)	
i. Territorially defined area within the city limits ii. High potential for economic development iii. Urban development proposal developed, consulted with the community, and costed iv. Specific investment projects identified v. Strategy for private-sector participation developed	
B. Investment projects in IHNs	
B.1 Improvement of roads and urban spaces	
i. Public land ii. Project included in eligible IHN (or buffer or connecting area) iii. Design complies with national and municipal technical and environmental standards iv. Capacity established and agreement signed with institution responsible for maintaining the project v. Community consulted about the project vi. Net present economic value (NPEV) is positive (or, in the case of neighborhood streets, value of surrounding area < US\$13/hect.)	
B.2 Rehabilitation of public properties	
i. Publicly-owned land, building, and equipment with title or buffer or connecting area) in order ii. Project included in eligible IHN iii. A building determined by the IMV to be a landmark, in consultation with the Regional Commission of National Monuments (CRMN) or established as key to changing the urban environment of the IHN iv. Demand study carried out; for buildings: type of demand, amount of space demanded, type of space demanded, and entities requesting the building v. Commercial proposal with net present financial value (NPFV) >0 established (may be deemed a subsidy to the user, function of the positive surplus of an NPEV>0) vi. The design based on the study of architecture, structures, facilities, machinery, and equipment of the building for rehabilitation for the purposes identified complies with national and municipal technical and environmental standards vii. Rehabilitation and administration agreement with the entity that owns the building, with contributions to the project indicated viii. Where appropriate, agreements with entities interested in using the building providing contributions for rehabilitation, rent to be paid, and operation and maintenance commitments, periods for use and the conditions in which the building will be returned to its owner ix. In the case of initiatives featuring the participation of private-sector partners: identification and specification of financing requirements and expected funding sources; any legislation governing public-private partnerships, or the corresponding bidding terms and conditions for a concession; and, if appropriate, the eligibility criteria for participating partners and required guarantees	
B.3.1 Renewal of private properties	
i. Privately-owned land, building, and equipment with title in order ii. Project included in eligible IHN (or buffer or connecting area) iii. Property deemed a landmark by the IMV, in consultation with the Regional Commission of National Monuments (CRMN) or determined to be key to changing the urban environment of the IHN iv. Demand study and business proposal with NPFV>0 established, based on the initial subsidy to the owner, a function of positive surplus of an NPEV>0) v. Study of architecture, structures, facilities, machinery, and equipment of the building for rehabilitation for the uses identified complies with national and municipal technical and environmental standards vi. Rehabilitation and administration agreement with the entity that owns the building, indicating contributions to the project, financing requirements, and expected funding sources	
B.3.2 Rehabilitation of private properties: conversion of tenements	
i. Building in eligible IHN (or buffer or connecting area) ii. Privately-owned land, building, and equipment with title in order iii. Study showing overcrowding and dilapidated state of the building iv. Design with solutions and proposals for occupancy and sale of new apartments v. Support requirements for residents who prefer other locations, which must be in compliance with the IDB's Involuntary Resettlement Policies vi. Amount of subsidies, taking into account the socioeconomic characteristics of current and potential residents, as well as their ability and willingness to pay vii. Criteria and method for assigning subsidies among current and future residents	
B.3.3 Basic improvements to dilapidated housing	
Eligibility of housing for improvement subsidy: i. Included in an eligible IHN ii. Dilapidated façade, structure, roof, electrical installations and/or sanitary fixtures iii. The owner lacks sufficient funds to repair the housing unit on his or her own iv. Not invaded by squatters v. Must be connected to water, sewage, and power systems vi. Not a group home, lodging facility, or tenement vii. Expected assessment exceeds cost of investment	
B.3.4 Purchase of properties (for development through B.2)	
i. Is located within the urban footprint in an eligible IHN (or buffer or connecting area), with connection or access to utilities ii. Purchase value based on market appraisal; and iii. Has a B.2 project in place	

a. Program cycle

- 3.15 The program execution cycle is as follows: (i) **Programming**: in conjunction with the IMV and other coexecuting agencies, the PEU will keep the general program schedule continuously updated, and based on this schedule it will prepare an AWP each year, which will be submitted to the Program Board of Directors (PBD) for approval along with the updated version of the general program schedule, and submitted to the IDB for nonobjection; execution of the AWP will be the subject of quarterly reports to the PBD and semiannual reports to the Bank; (ii) **Pre-investment**: in coordination with the PEU and pursuant to the program and corresponding AWP, each coexecuting agency will: (a) secure approval from the Ministry of Planning and Cooperation (MIDEPLAN) for the necessary pre-investment studies and be responsible for commissioning and supervising such studies; and/or (b) plan the housing subsidy, production incentive, or compensation; SUBDERE, through the PEU, will be responsible for evaluating the eligibility of the investments, in accordance with the criteria set forth in the GORs and SORs, as appropriate; (iii) **Investment**: after authorization from SUBDERE, each coexecuting agency will then: (a) tender and contract the works and the procurement of equipment and consulting services, and/or (b) grant the housing subsidy, production incentive, or compensation, based on the project approved; (iv) **Oversight and supervision**: this will be performed by the contractor or coexecuting agency, if they have the necessary capacity, or by consultants or specialized firms. **During the final quarter of each calendar year, the executing agency must submit the AWP for the following year to the Bank for nonobjection.**

b. Procurement of goods and services

- 3.16 The program includes the procurement of works, goods, and consulting services. Such procurement must be in accordance with the “Policies for the procurement of works and goods financed by the IDB” (document GN-2349-4) and the “Policies for selection and contracting of consultants financed by the IDB” (document GN-2350-4). Table III-2 summarizes the procedures applicable to each type of procurement based on the amounts in question:

Table III-2

Investment category	Maximum amount	Procurement procedure
Works	Greater than or equal to US\$5 million	International competitive bidding (ICB)
	Greater than or equal to US\$350,000, up to US\$5,000,000	National competitive bidding
	Less than US\$350,000	Price comparison
Goods	Greater than or equal to US\$350,000	International competitive bidding
	Greater than or equal to US\$100,000, up to US\$350,000	National competitive bidding
	Less than US\$100,000	Price comparison
Consulting services	Greater than or equal to US\$500,000	Short list with broad geographical representation
	Less than US\$500,000	Short list

- 3.17 For development activities aimed at communities, the method for community participation in procurement described in paragraph 3.17 of the Procurement Policies may be used.
- 3.18 **Bank review.** The Bank will carry out the prior review procedure for procurement of goods and services and hiring of consultants, pursuant to Appendix I of documents GN-2349-4 and GN-2350-4. However, the Bank may conduct post review of these processes, according to the aforementioned Appendix I, for procurement processes under the maximum amounts authorized for each type of procurement in accordance with Table III-3, once the PEU has demonstrated to the Bank's satisfaction that the procedures followed for each case have had a favorable outcome and that it has effective management and monitoring systems in place. Post review will be carried out for each type of process insofar as satisfactory outcomes are verified in the prior reviews, and this is expected to be achieved for the program as a whole. The PEU will be responsible for conducting prior reviews of the activities of the coexecuting agencies while the Bank will conduct post reviews. Below are the maximum amounts in question.

Table III-3

	Prior approval and review by the PEU and post review by the IDB	Prior approval and review by the PEU and the IDB
Works	Less than US\$5 million	Greater than or equal to US\$5 million (ICB)
Goods	Less than US\$350,000	Greater than or equal to US\$350,000 (ICB)
Consulting firm	Less than US\$300,000	Greater than or equal to US\$300,000
Individual consultant	Less than US\$50,000	Greater than or equal to US\$50,000

- 3.19 **Procurement plan.** With advice from the Bank, the executing agency has prepared and submitted a procurement plan that covers a period of 18 months and includes estimates for contract amounts, sources of financing, grouping of processes, contracting methods for each process, and applicable procedures for the Bank's review. In accordance with the Procurement and Contracting Policies, the borrower will submit an update of this plan, covering an 18-month period, to the Bank on an annual basis. Any contracting process will be carried out in accordance with the most recent update to the procurement plan approved by the Bank. A procurement specialist is expected to be hired for the program executing unit.

c. Expenses eligible for financing

- 3.20 In addition to investment expenses through works, goods, and consulting services, production incentives associated with the rehabilitation of private properties, procurement of properties in order to rehabilitate them, and production incentives related to the promotion of economic development will be eligible for financing (see paragraphs 2.6 and 2.10). Also eligible will be subsidies for basic improvement of dwellings located in the IHNs and subsidies related to conversion of tenements (paragraph 2.6). The other expenses mentioned herein will be eligible for disbursements as the SORs that govern them enter into effect, with the Bank's approval.

D. Operation and maintenance

- 3.21 The executing agency will undertake to include in the agreements with the coexecuting agencies and beneficiary entities the commitment that the works and equipment that are financed by the program will be operated and maintained in accordance with generally accepted technical standards and financial practices. In the event that it is found otherwise, the executing agency will promote the measures needed to correct any problems.

E. Execution period and disbursement schedule

- 3.22 The execution period of the program is expected to be six years long, and disbursements will be made as shown in Table III-4 below.

Table III-4
Execution schedule

Year	2005	2006	2007	2008	2009	2010	2011	Total
Total	3.3	9.0	15.0	16.0	14.0	9.7	6.0	73.0
%	5%	12%	21%	22%	19%	13%	8%	100.0%

F. Recognition of expenses

- 3.23 In relation to the expenses incurred before approval of the loan, but within 18 months prior to such approval, the Bank may recognize expenses prior to the signing of the loan contract and charge them to the counterpart assigned to the program for an amount of up to US\$4.5 million in relation to the purchase of equipment, the publicity campaign, and the prefeasibility and design works and studies, provided that procurement procedures have been followed which are substantially similar to those set forth in the loan contract.

G. Revolving fund

- 3.24 The size of the program's revolving fund—10% of the amount of the loan—determined on the basis of the program needs and the characteristics of the anticipated financial flows.

H. Auditing

- 3.25 Within 120 days following the end of each fiscal year, the borrower, through the PEU, must submit the financial statements for the program audited by the Contraloría General de la República [Office of the Comptroller General of Chile].

I. Monitoring and evaluation of outcomes

- 3.26 The logical framework for the program (Annex I) defines a set of indicators that will be used to monitor and evaluate the program. The PEU will be responsible for assembling and administering the information systems that will allow the indicators and other information needed to evaluate the program to be monitored. **Within the**

first 12 months after the loan contract goes into effect, the PEU will have implemented a monitoring and evaluation system in accordance with the terms of reference agreed upon with the Bank.

- 3.27 As part of monitoring the program, an independent midterm evaluation of the process and outcomes will be conducted, which will include the status of the components and indicators listed in the logical framework. **After 36 months of execution, or after verifying the disbursement of 50% of the funds, whichever comes first, the executing agency will hire an independent specialized firm to carry out the midterm program evaluation in accordance with the terms of reference agreed upon with the Bank.**
- 3.28 It has also been agreed with the borrower that a final evaluation will be conducted to measure progress in achieving the objectives and to glean the lessons learned from the program execution process. **Withing the six months preceding the date of the last disbursement or after 80% of loan funds have been disbursed, whichever comes first, the borrower will hire an independent specialized firm to perform the final program evaluation in accordance with the terms of reference agreed upon with the Bank.**

IV. VIABILITY AND RISKS

A. Rationale

- 4.1 Program design was based on in-depth studies related to the diagnostic assessment of the situation in the city of Valparaíso—in its urban-development, economic, social, institutional, and environmental dimensions—and on the identification and evaluation of impacts and social returns of three large emerging sectors for rehabilitation of the city: cultural-heritage tourism, the university area, and the potential for real estate development associated with secondary residences. Territorial criteria were included that placed emphasis on the location of the urban heritage site, the state of deterioration of this area, and its potential for attracting new economic activities and areas with available land for real estate development linked to the expansion of university activity and the project to open up the coastline.
- 4.2 The program is expected to contribute substantially during the 2006–2010 period to the creation of approximately 13,000 new jobs and an increase in household income of about 10%. From a socioeconomic point of view, therefore, the program would have a high return.
- 4.3 In addition, from a technical point of view, the urban development project guiding public-sector interventions for the rehabilitation of Valparaíso is well designed and is in line with international best practices for this type of urban development project. It is designed to consolidate and further the renewal process that is under way in the city. The proposed interventions complement the initiatives that are under way or proposed by other public- and private-sector entities, mainly the mitigation of conflicts involved in port access, the metropolitan train system, and development of the city's coastline.
- 4.4 During program preparation, an extensive process of consultation with the public (including government staff, businessmen, academics, CSOs, neighborhood organizations) was conducted for the purpose of publicizing the program's lines of intervention and learning how it is perceived in this regard. Various participatory methodologies appropriate to each of the groups that were consulted were used, and the information gathered was discussed with the Chilean authorities. As a result of this participatory process, many of the suggestions from the public have been incorporated into the program design, which lends it a high degree of credibility and support from all the stakeholders.

B. Program viability

1. Execution

- 4.5 While the program executing agency is the national entity SUBDERE, the execution approach appropriately centers direct execution of investments in the

IMV (which is to execute about 50% of the amount of the program). To this end, this entity is expected to create a coexecuting unit with the systems and human resources needed to take on the required responsibilities. Meanwhile, the executing agency will have a PEU, which will be responsible for advising, planning, coordinating, and monitoring compliance with the loan contract. This approach reflects the institutional analysis carried out by the Bank and the recommendations of consultants hired for this purpose. Other coexecuting agencies will be incorporated as needed for the execution of investments. In all cases, it has been verified that the various coexecuting agencies have the legal authority to carry out planned actions. For these reasons, the proposed execution approach, which flows from the structure and capacities of the various actors and is based on an institutional and legal analysis, is deemed viable from a technical point of view.

2. Project viability

- 4.6 In order to determine the eligibility criteria to be included in the GORs for eligibility of IHNs and related investments, the Barrio Puerto–Santo Domingo IHN was reviewed along with its subprojects. Also reviewed were proposed investments for the city's solid waste management and pest control systems. The outcomes are shown in Table IV-1. This laid the basis for determining the eligibility factors required for the program, which are reflected in Table III-1 and included in the GORs. Meanwhile, the Barrio Puerto–Santo Domingo IHN has been found eligible in accordance with the criteria selected. Also, the subprojects examined in this IHN are indeed necessary to improve public areas and increase connectivity between hills, overlooks, and the coastal plain; they are well designed and are expected to comply satisfactorily with the eligibility criteria specified in Table III-1. Similarly, the projects for the solid waste and pest control systems, which are in an advanced stage of preparation, are considered viable. The first set of investments, to be made in 2006, will be ready for tendering during the first half of 2006, in compliance with the disbursement schedule (see paragraph 3.22).

TABLE IV-1 PROJECT VIABILITY							
Projects	Pre-investment stage	Economic investments/ prices	Viability 1/				
			Economic		Technical	Institutional/ Financial	Social/ environmental
			Min. cost	NPEV			
		US\$000		US\$000			
A. BARRIO PUERTO - SANTO DOMINGO INTEGRATED HERITAGE NEIGHBORHOOD (Projects)							
Improvement of roads and public spaces							
1.Road improvements (Barrio Puerto)	Feasibility	2,833	Yes	1,153	Yes	Yes	Yes
2.Neighborhood public spaces (Senda Santo Domingo)	Feasibility	290	Yes	33	Yes	Yes	Yes
3.Improvement of ravines (San Francisco)	Prefeasibility	1,015	Yes	42	Yes	Yes	Yes
Improvement of public properties							
4. Severin Building	Prefeasibility	1,389	Yes	54	Yes	Yes	Yes
5.Rehabilitation of Puerto Market	Prefeasibility	2,746	Yes	141	Yes	Yes	Yes
Improvement of private properties							
6. Housing improvements (160 houses)	Prefeasibility	1,023	Yes	23	Yes	Yes	Yes
7. Conversion of tenements (100 homes)	Prefeasibility	460	Yes	N/A	Yes	Yes	Yes
B. CITY SERVICES AND EQUIPMENT							
1.Residential solid waste management	Feasibility	2,591	Yes	6,940	Yes	Yes	Yes
2.Pest control	Feasibility	1,549	Yes	925	Yes	Yes	Yes
1/ Complies or is expected to comply satisfactorily with the eligibility criteria in Table III-1.							

3. Financial viability

- 4.7 In Chile, municipal governments may not contract debt. Therefore, counterpart funds and the funds to repay the loan to the Bank will be provided by the national government.³ The ability to repay this loan and provide counterpart funds for the program is guaranteed. The financial analysis of the municipal policies and actions included in the program indicates that the municipality will have the funds necessary for operating and maintaining the municipal investments included in the program.
- 4.8 The program seeks to distribute funds on the order of US\$6 million annually to the executing agency in the five years of execution. This figure is relatively significant in terms of historical investment and transfer trends. In principle, this will help to

³ The program will channel funds from the prospective loan from the Bank to the municipal government through discretionary nonreimbursable transfers.

increase the level of municipal spending required for urban rehabilitation and effective maintenance of historical sites.

- 4.9 The critical assumptions of the municipal projections—which are the manifestation of fiscal responsibility—in addition to institutional re-engineering, which would mean restructuring appointed and hired personnel, are: (i) its debt is refinanced so as to eliminate it by the year 2009, (ii) tax and duty collection improves; and (iii) it recovers part of the cost directly from the beneficiaries (solid waste and funiculars) and the difference, with optimal costs, will be subsidies budgeted for licensees or parties responsible for provision of services.

Table IV-2

Items and indicators US\$ million in 2004	Average 2000-2004 (base)	Average 2006-2015
1. Revenue	31.0	35.7
- operations	18.5	23.5
- transfers	3.2	3.2
- others (including cash)	9.3	9.3
2. Expenses	32.7	28.1
- staff and benefits	9.7	9.7
- goods and services	12.7	11.0
- transfers to individuals	4.2	4.2
- real investment	3.2	3.2
3. Outcomes and indicators		
- Primary surplus/deficit (+/-)	-2.0	3.5
- Debt (accumulated)	18.0	2009 = 0.0
- Service of the debt	0	8.0
- Employees per thousand residents	5.0	2.6

- 4.10 The second column of the table reflects the current financial situation, which does not constitute a sustainable balance over the long term, given that it involves increasing indebtedness since the municipality's current income does not cover the current costs of providing effective municipal services, and servicing the debt. The third column of the above table—financial situation with the program—shows that if the municipality follows the necessary steps (increasing coverage and improving collection by updating the various property and taxpayer registries, and reducing the revenues due but not collected), it can overcome the current problems.
- 4.11 The analysis shows that: (i) counterpart funds for this program will be available because there are abundant resources in the country for discretionary transfers to municipalities in general and to Valparaíso in particular; and (ii) the positive impact of the adjustment and reform measures on municipal finances makes it possible to project that the IMV will be able to provide the funds for maintaining and operating municipal services and heritage buildings that are being improved under the program.

4. Environmental and Social Viability

- 4.12 It is estimated that program activities will have a significant impact on the generation of new jobs in the city and the reduction of poverty, and that the environmental impacts will be positive. Any negative impacts are minor and temporary, and are mainly associated with the construction activities. However, Chilean standards and practices are sufficient to mitigate these impacts. The program's social and environmental strategy (SES) was determined through the preparation of the program's strategic environmental evaluation (SEE) which

garnered comments from the public as it was made available on the website www.valparaiso-opina.cl and at the offices of the executing agency from 11 July to 4 August 2005. The SEE concerns: (i) the program's legal and institutional framework; (ii) the physical, environmental, and social assessment; (iii) support for the strategic viability and sustainability of the program by identifying "environmental opportunities"; (iv) environmental viability and sustainability of the projects to be financed; (v) support for citizen participation; and (vi) development of the program's Environmental Management System being integrated into the GORs. The outcomes of the SEE and the participation program are described in the Environmental and Social Management Review (ESMR).

C. SEQ and PTI classification

- 4.13 This operation does not qualify as a poverty-targeting investment, but it is oriented toward promoting social equity, as described in the Report on the Eighth General Increase in Resources (AB-1704).

D. Benefits and impacts

- 4.14 The main impact of the program will be to consolidate the process of rehabilitating and developing the city of Valparaíso by contributing to the: (i) physical recovery of public spaces and historic buildings in the city; (ii) improvements in basic urban services that ensure a higher quality of life for residents; (iii) generation of new private-sector business and job opportunities in sectors such as tourism, higher education, and real estate, spearheading the economic revitalization of the city; (iv) improvement in the overall management of the municipality and, in particular, development of the priority areas of intervention under the program; (v) involvement of the public in urban decision-making, strengthening their social capital.
- 4.15 In terms of the economic benefits, those related to the following issues are expected to be significant: (i) profits for companies that provide additional services in the city related to tourism, institutions of higher education, and the real estate sector, and indirectly to other economic activities; (ii) benefits for residents associated with the improvement of public services and the city's physical and environmental conditions; (iii) benefits for Chileans visiting the city that result from having a better place to visit and more recreation opportunities; (iv) benefits for residents who purchase properties in the city as secondary residences; and (v) benefits for the economically active population, which will have a greater number of jobs and better pay.

E. Risks

- 4.16 The main risks facing the program are: (i) the possible lack of coordination among various institutional actors, which is mitigated by the implementation of an

execution structure that: (a) was agreed upon by consensus with the main institutional authorities; (b) features graduated and consistent levels of decision-making and supervision; (c) features a program board of directors that is comprised of the main government agencies involved (SUBDERE, IMV, DIPRES); and (d) proposes a PEU that is attached to SUBDERE, which through cooperation with the coexecuting agencies, especially the IMV, will provide for the planning, coordination, monitoring, and supervision of program activities; (ii) the possibility that planned public investments, the development of clear regulations, the development of a schedule of celebrations and cultural events that will attract large numbers of people, and production incentives that are offered are not in and of themselves enough to attract private-sector investments; this will be mitigated through the PEU and the municipality adopting a flexible, proactive strategy that will include, among other features, consultation events and coordination with the private sector and activities to promote and attract businesses in strategic sectors, as well as the institutional strengthening of the IMV designed to ensure that the city has the studies, tools, and skill to execute a strategic business plan with a long-term approach; (iii) that the investments made by the program, the operation and maintenance of which are the responsibility of the municipality, are not financially sustainable due to a possible imbalance between the municipality's responsibilities and its tax revenue; this risk will be mitigated through the municipality's institutional strengthening efforts for managing the city and through additional transfers from the national government; and (iv) that residents may not properly perceive the benefits of the program, resulting in opposition; to address this risk, a plan for continuous publicity and public participation will be implemented.

LOGICAL FRAMEWORK*
VALPARAÍSO URBAN REHABILITATION AND DEVELOPMENT PROGRAM
(CH-L1004)

Narrative summary of objectives	Objectively verifiable indicators	Target						Baseline Amount (year)	Means of verification	Assumptions
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6			
Goal To increase employment, income, and well-being of the residents of the municipality of Valparaíso	No. of employed persons Average household income (in US\$, Dec. 04) Poverty rate	90,000	92,000 US\$765	94,000	96,000 US\$849 16%	97,000	100,000 US\$900 15%	87,000 (04) US\$685 (03) 20.1% (03)	Data from INE employment surveys (quarterly) Data from CASEN survey (available every two years)	Political support for program development continues to be significant. Chile maintains a positive growth rate above 5%.
Purpose To help revitalize the city of Valparaíso by building on the city's urban heritage	Total spending by tourists in the city (millions, US\$, Dec. 04) Total spending by college students on services provided in the city (millions, US\$, Dec. 04) Number of business licenses granted for IHN areas (cumulative) Hectares of abandoned or soft-use sites			US\$77 US\$92 3			US\$104 US\$108 50 10 hect	US\$51 (03) US\$77 (03) N/A 33.5 hect	SERNATUR statistics and surveys Special survey on spending by college students Municipal Revenue Department, IMV Municipal land registry and MINVU land registry	Proposed interventions are enough to attract expected private investment and the demand for housing. The community participates, and private-sector SMEs support the program and make it their own. MINVU, CORFO, and MOP maintain their pace of investment in the city.

* The Logical Framework is subject to yearly updates of indicators and targets throughout program execution

Narrative summary of objectives	Objectively verifiable indicators	Goal						Baseline Amount (year)	Means of verification	Assumptions
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6			
1. Urban renewal										
1.1 Integrated heritage neighborhoods**	Number of IHNs designed and approved (cumulative)	4	5						Evaluation reports by the Program Executing Unit	
	Number of IHNs concluded (cumulative)					4	5			
	Projects executed:									
	• IHN 1: Rehab. Mercado Puerto Impr. San Fco. Ravine Rehab. Severín Bldg.				√ √	√				
	• IHN 2: Rehab. Asc. Artillería EPV Artillería Impr. Pza. Aduana				√	√ √				
	• IHN 3: EPV Cerro Toro Recup Asc. Cordillera EPV Cerro Cordillera			√	√ √					
	• IHN 4: Recup. Asc. Peral Co. Alegre y Concep. Rehab. Pza. Sotomayor					√ √ √				
	• IHN 5: Impr. Av. Brasil Impr. Av. Argentina				√		√			
	No. of housing units improved (cumulative)	-		50	100	300	400			
	No. of families in tenements benefited (cumulative)	-		20	40	60	100			
	No. of landmark buildings restored and in operation (cumulative)	-		1	3	5	6			

** The following IHNs have been identified in advance: (1) Barrio Puerto – Santo Domingo neighborhood; (2) Plaza Aduana – Artillería neighborhood; (3) Cordillera-Plaza Justicia neighborhood; (4) Barrio Financiero - Cerro Alegre neighborhood; and (5) Brasil-Barón neighborhood.

Narrative summary of objectives	Objectively verifiable indicators	Goal						Baseline Amount (year)	Means of verification	Assumptions
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6			
1.2.1 Solid waste management	Management system improved (contract with private operator in effect, or equivalent)		√						Report from Municipality	
	Number of microdumps in the city			16	10	8	5	84 (02)		
1.2.2 Urban pest control	Number of street dogs						25,000	50,000 (04)	Report by the Municipality	
1.2.3 Signage	Signage in place in heritage areas			50%	100%				Report by SENATUR	
2. Economic and sociocultural development										
2.1 Economic development	New CORFO incentive approve		√						Report by the program executing unit	Economic conditions are suitable to stimulate demand for funds.
	No. of companies supported (cumulative)			5	20	60	80	N/A		
	Strategic Tourism Plan approved and in place		√							
	Strategic Development Plan for Ciudad Universitaria approved and in place		√							Timely consensus among authorities to approve plans.
	Proposal for an institutional structure for developing joint public-private initiatives done			√						
2.2 Sociocultural development	Number of teachers trained in cultural heritage (cumulative)		50	100	400	600	800	N/A		Initiative incorporated into development plans.
	Number of neighborhoods carrying out community initiatives financed by the program (cumulative)		5	20	100	150	150	N/A		The Municipality's Community Development Department has a strengthened team.
3. Institutional development of the IMV	New municipal organizational structure implemented	√							Evaluation report by the program executing unit	The political will to restructure and operate the new institutional arrangement continues.
	Management and computer systems commissioned and implemented	√							Financial statements from the municipality	
	Human resource streamlining under way	√						N/A		
	Municipal investment per resident (US\$ Dec. 04)	10	10	10	10	11	12	9.9 (04)	Evaluation report by the program executing unit	Agreements have been reached with the primary agents involved and required regulations are in place.
	Own revenue/total revenue (%)	62%	63%	63%	65%	66%	66%	62% (04)		
	Municipal spending per resident (US\$ Dec. 04)	109	108	108	109	110	112	129 (04)		
	Personnel per thousand residents	4.2	3.3	3.3	3.1	2.8	2.5	5.2 (04)		

Narrative summary of objectives	Objectively verifiable indicators	Goal						Baseline Amount (year)	Means of verification	Assumptions
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6			
	Municipal deficit eliminated Municipal debt restructured Master plan for the World Heritage Site area approved		 √	√ √						Total revenues do not decrease. The municipal debt is successfully refinanced, tax and duty collection improves significantly, the costs of services are recovered in part, and the licensees or responsible parties receive from the Municipality the subsidies or funding they need to provide services.
4. Publicity and participation	Cumulative progress on publicity plan	20%	30%	40%	60%	80%	100%		Evaluation report by the program executing unit	
	Attendance at program participation activities (cumulative)	800	1,200	2,100	3,400	4,600	6,000			

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION

**Chile. Loan /OC-CH to the Republic of Chile
Valparaíso Urban Renewal and
Development Program**

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Chile, as Borrower, for the purpose of granting it a financing aimed at cooperating in the execution of a Valparaíso urban renewal and development program. Such financing will be in the amount of up to US\$25,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.