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Report No. P-5585-CH

**MEMORANDUM AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$ 17.2 MILLION EQUIVALENT

TO

THE REPUBLIC OF CHILE

FOR A

SECOND PUBLIC SECTOR MANAGEMENT PROJECT (PSM II)

September 11, 1991

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CURRENCY EQUIVALENTS

Currency Unit - Chilean Peso (Ch\$)

Current Rate (Official): US\$1 = Ch\$305 (Average 1990)
US\$1 = Ch\$342 (May 1991)

WEIGHTS AND MEASURES

Metric System

1 meter (m) = 3.28 feet (ft)
1 kilometer (km) = 0.62 mile (mi)
1 square kilometer (km²) = 0.386 square mile (sq mi)
1 metric ton (m ton) = 1.1 US short ton (sh ton)
1 liter (l) = 0.264178 US gallon (gal)

FISCAL YEAR

January 1 to December 1

PRINCIPAL ABBREVIATIONS AND ACRONYMS

CCU	=	Congressional Coordinating Unit
CIEPLAN	=	Corporacion de Investigaciones Economicas para Latinoamerica
CORFO	=	Corporacion de Fomento de la Produccion
DIMC	=	Division of Interministerial Coordination
FP	=	Fondos de Pensiones
GDP	=	Gross Domestic Product
ICB	=	International Competitive Bidding
ILADES	=	Instituto Latinoamericano de Doctrina y Estudios Sociales
IMC	=	Interministerial Committee
IRS	=	Internal Revenue Service
LCB	=	Local Competitive Bidding
LOC	=	Library of Congress
MIDEPLAN	=	Ministerio de Planificacion
OED	=	Operations Evaluation Department
PCR	=	Project Completion Report
PCU	=	Project Coordinating Unit
PPF	=	Project Preparation Facility
PROCHILE	=	Promotora de Chile
PSM I	=	First Public Sector Management Project
PSM II	=	Second Public Sector Management Project
SEGPRES	=	Secretaria de Presidencia
SOE	=	Statements of Expenditures
SOFOFA	=	Sociedad de Fomento Fabril
SSI	=	Social Security Institute
TA	=	Technical Assistance
TOR	=	Terms of Reference
UNDP	=	United Nations Development Program
USAID	=	United States Agency for International Development
VAT	=	Value Added Tax

CHILESECOND PUBLIC SECTOR MANAGEMENT PROJECT (PSM II)Loan and Project Summary

Borrower: Republic of Chile.

Beneficiary: Ministry of Finance, Economy, and Labor; Library of Congress.

Amount: US\$17.2 million equivalent.

Terms: Repayment in 17 years, including a 4-year grace period, with interest at the Bank's standard variable rate.

Financing Plan:

IBRD:	US\$17.2 million
Government of Chile:	US\$ <u>6.8 million</u>
<u>Total Financial Plan</u>	<u>US\$24.0 million</u>

Economic Rate of Return: Not applicable.

Staff Appraisal Report: Not applicable.

Map: IBRD No. 14306R1.

This report is based on the findings of an appraisal mission that visited Chile in May 1991, and reflects the agreements reached during negotiations (July 15-19, 1991). The appraisal mission was comprised of Donald R. Winkler (Task Manager), Luis-Jose Mejia and Jaime Vasquez-Caro, LATPS. Michael Stevens (CECPS) and David Steedman (AFICO) acted as Peer Reviewers. The responsible managers are Shahid A. Chaudhry, Division Chief, LATPS and Ping-Cheung Loh, Director, LA4.

MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT
OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN TO THE REPUBLIC OF CHILE
FOR A SECOND PUBLIC SECTOR MANAGEMENT PROJECT

1. The following report on a proposed loan to Chile for US\$17.2 million is submitted for your approval. It would finance technical assistance to improve the economic policy management and decisionmaking capacity of the central government and strengthen the analytical capability of the Congress.

2. Background. Over the past two decades, Chile has undergone profound economic, social, and political change. A broad series of reforms instituted over the 1980s touched virtually every aspect of economic and social development--from the general policy framework to institutions and financing mechanisms. Not only did these reforms fundamentally redefine the role of the State to a more subsidiary one, consistent with the adoption of an economic policy oriented toward growth led by the private sector, but as an integral part of this process the relative size, and distinct administrative and financial responsibilities assigned to each level of government were altered significantly. Many of the reforms undertaken such as revising the nation's social security system from pay-as-you-go to individual-vested accounts, placed new administrative and fiscal demands on the central government.

3. The current Administration, which assumed office in March 1990, has committed itself to maintaining the overall macroeconomic policy direction in its pursuit of growth with equity. While endorsing the desirability of sustaining key elements of the 1980s reforms (e.g., privatization and decentralization), the administration has acknowledged the need to strengthen the government's institutional capacity to translate such development objectives into reality. Indeed, although Chile has a rich pool of human resources and a long tradition of attracting competent professionals into the civil service, further improving the public sector will be an essential corollary to attaining the desired full transformation of the country into a developed, modern economy.

4. Strengthening the policy formulation and financial management capacity of key public sector entities will be essential to permit the new Administration to share macroeconomic and social policy formulation responsibilities with a newly elected Congress; to define public investment priorities; to coordinate development programs across ministries and agencies; and to ensure responsiveness of economic policy to a highly dynamic economy with still substantial vulnerability to both internal and external shocks.

5. Rationale for Bank Involvement. Consolidating a democratic political system after almost 17 years of military rule is among the major tasks which the current Administration has assumed. The new government is under substantial pressure to demonstrate that desired social welfare improvements can be achieved within a democratic setting without compromising macroeconomic stability and growth. It is both an urgent and challenging task of historic importance.

6. Pursuing the development agenda within an interactive, multipartite, consultative decisionmaking process, inherent to a democracy, places special demands on the executive and legislative branches both individually and collectively. This process must be totally transparent, and one in which the public has confidence. It thus necessitates enhanced information systems, and staff skilled in policy analysis, budgetary design and performance monitoring. Moreover, the transition to democracy, coupled with the many institutional changes effected by the past government, including decentralization of social services and establishment of a fully autonomous Central Bank structure, have created new needs for coordination between distinct levels of government, the Ministry of Finance and the Central Bank, and between the Government and Congress to ensure that national resources are efficiently and effectively managed.

7. Indepth knowledge of internal Government operations is essential to strengthen key economic policy and revenue collection entities (amid growing concern over tax evasion); to ensure that an adequate regulatory framework is in place to oversee natural monopolies; and to create select new mechanisms for governance such as the interministerial Committees. The Government increasingly has looked to the Bank to provide the requisite technical assistance to respond expeditiously and decisively to public sector management needs. It perceives the Bank as a neutral, "honest" independent broker which will assess existing institutional capacity from a purely technical perspective and importantly can help strengthen such capacity, building on knowledge gleaned from extensive public sector reform and management experience in other countries. The Bank's involvement in strengthening public sector management, via this project, thus can play a critical role in the redemocratization of Chile.

8. The proposed project would build on earlier Bank efforts to improve economic and public sector management, including three SALs and the first Public Sector Management Loan (PSM I). Lessons learned from PSM I and incorporated in PSM II include the need for strong commitment by the Borrower to the project components, carefully defined project scope, preparation of detailed terms of reference, minimal unallocated funds, and requirements for periodic project review to permit adjustments in design and implementation arrangements.

9. The design of the proposed project is consistent with country development priorities and the Bank assistance strategy. It supports maintenance of a consistent macroeconomic policy framework, through strengthening interagency coordination and economic policy analysis capability (Ministries of Economy and Finance and Library of Congress). It also responds to the need, as documented in recent ESW, to improve revenue administration, the single largest component of the proposed project.

10. Project Objectives. The project aims to improve overall central governmental management efficiency and to enhance Chile's policy formulation and implementation capacity. Specifically, it would: (a) improve information systems and management of the principal public financial management agencies; (b) increase the quality and facilitate the use of information and subsequent analysis in legislative economic decisionmaking; (c) contribute to strengthening the analytical policy and implementation capacity of the government; and (d) enhance the capacity to assess critically issues that cross specific development sectors.

11. Project Description. To achieve these objectives, the project would finance consultant services, equipment, and training to: (a) develop and/or improve existing taxpayer and beneficiary management information systems, to include development of performance indicators in four financial management agencies (Internal Revenue Service, Customs, Treasury, and Social Security) (US\$7.6 million); (b) improve the capacity of the Library of Congress to provide economic information and analysis, including strengthening its reference holdings (US\$5.3 million); (c) provide improved economic data and information systems and analytic capacity to guide decisionmaking in the key ministries of Finance and Economy (US\$2.0 million); (d) strengthen the analytical information base available to the Interministerial Committees (US\$0.8 million); and (e) strengthen the Ministry of Finance's capacity to manage the proposed project (US\$0.4 million). The Matrix of Key Project Activities (Attachment 1) includes information on objectives, physical outputs, substantive impacts and outcomes, timing targets, and agency counterparts. These constitute estimated indicators for the project and will provide the basis for supervision.

12. The total cost of the project is estimated at US\$24.0 million, of which US\$17.2 million would be financed by the Bank, including US\$11.9 million in foreign exchange. The Government would finance US\$6.8 million equivalent, or about 28% of project costs. The detailed cost estimates and methods of procurement and disbursements are provided in Schedules A and B and discussed in Annex I. The project includes refinancing for a Project Preparation Facility (US\$376,000) used to finance consultant services and equipment to assist in the preparation of terms of reference (TOR) and to facilitate project implementation. A timetable of key project processing events and the status of Bank group operations in Chile are given in Schedules C and D, respectively. A map of Chile is attached. The detailed project description, and the project administration and implementation arrangements are given in Annex I. The TOR for major consultancies were agreed to in principle during appraisal and are available in the Project File. The consultants will be selected and equipment will be procured in accordance with Bank guidelines.

13. Actions Agreed. The following agreements have been reached: (a) an annual work plan satisfactory to the Bank for the first year of the project, including objectives, activities, cost, and expected outcomes; (b) the Project Coordinating Unit (PCU) will be established as a condition of effectiveness and maintained with a full-time coordinator during the life of the project; (c) for supervision purposes, the agencies participating in the project will provide measures of physical progress and project impacts satisfactory to the Bank (Attachment I), and the PCU will semiannually report such measures to the Bank; (d) to facilitate comprehensive two and four year reviews, the participating agencies will carry out the action plan specified in Attachment II; and (e) to facilitate evaluation of overall project performance, the participating agencies will institute the agency-level performance indicators delineated in Attachment III no later than July 1, 1992, with the PCU to provide status reports relative to those indicators to the Bank at six-month intervals during the life of the project.

14. To reduce delays in contracting with consultants, the Government has delegated to the Subsecretary of Finance the signature of World Bank financed contracts with consultants and consulting firms less than 90 days in length and for expenditures less than US\$4,500 per month. The Government also agreed that

if the "delegation decree" were to be modified or abrogated, thereby adversely affecting the execution of any Bank financed project in Chile, such action would constitute an event of default.

15. A condition of disbursement for the Internal Revenue Service and Customs components is the appointment of subproject component coordinators satisfactory to the Bank. A condition of disbursement for the Ministry of Finance component is the appointment of key staff in the International Studies Unit and the Macroeconomic Studies Unit. Conditions of disbursement for the Congress component are the appointment of a subproject component coordinator satisfactory to the Bank and an arrangement between the Ministry of Finance and the Congress stipulating their respective responsibilities with respect to this project subcomponent under terms satisfactory to the Bank.

16. A condition of effectiveness is the establishment of a Project Coordinating Unit (PCU) in form and substance satisfactory to the Bank.

17. Benefits and Risks. The project would strengthen key government institutions responsible for national policymaking, especially economic management, and increase the effectiveness of financial management institutions. It would also improve the technical basis for economic policymaking and assist in the design of public organizations, thereby affording the potential for increased economic and public sector efficiency. There is some risk of slow implementation of the Congress component because of that institution's inexperience with management of foreign technical assistance. To minimize this risk, the Ministry of Finance and the Congress will sign a detailed agreement setting forth their respective responsibilities with respect to this component (para. 15); moreover, the Congress will establish a coordinating unit for this project component, satisfactory to the Bank. In addition, the project could result in some small increase in Government spending (in addition to the estimated additional US\$1 million in operating and maintenance costs associated with equipment acquired under the project); it is anticipated that any spending increase would be more than offset by project-related efficiency gains, which have been specified (Attachment I) and will be carefully monitored and supervised.

18. Recommendation. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank and recommend that the Executive Directors approve the proposed loan.

Lewis T. Preston
President

Attachments
Washington, D.C.
Date: September 11, 1991

CHILE - SECOND PUBLIC SECTOR MANAGEMENT PROJECT

Estimated Costs
(US\$ Thousands)

<u>Estimated Costs¹</u>	Local	Foreign	Total
<u>Consultant Services and Training</u>			
I. Financial Management	5,520	700	6,220
II. Legislative Information and Analysis	2,392	1,230	3,622
III. Economic Policy Formulation	2,561	620	3,181
IV. Policy Coordination	614	150	764
V. Project Coordination	433	0	433
Subtotal	11,520	2,700	14,220
<u>Equipment and Materials</u>			
I. Financial Management		4,550	4,550
II. Legislative Information and Analysis		3,585	3,585
III. Economic Policy Formulation		155	155
IV. Policy Coordination		0	0
V. Project Coordination		40	40
Subtotal		8,330	8,330
<u>Incremental Salaries</u>	240	0	240
<u>Price Contingencies²</u>	0	834	834
<u>Project Preparation Facility</u>	300	76	376
<u>Total Net Project Costs³</u>	12,060	11,940	24,000

¹ Excluding taxes and duties on imported equipment.

² Calculated as 10% of equipment and materials.

³ Net of 18% taxes and duties.

CHILE - SECOND PUBLIC SECTOR MANAGEMENT PROJECTFinancing Plan
(US\$ Thousands)

	Local	Foreign	Total
Bank	5,260	11,940	17,200
Government	6,800	0	6,800
T O T A L	12,060	11,940	24,000

CHILE - SECOND PUBLIC SECTOR MANAGEMENT PROJECTProcurement Arrangements
(US\$ Thousands)

Project Element	LCB <u>a/</u> ICB <u>b/</u>		Procurement method		Total Costs
			Other Bank <u>c/</u>	N.A.	
1. Consultant Services & Training	0	0	7,849 (7,849)	0 0	7,849 (7,849)
2. Equipment	6,100 (6,100)	2,273 (2,273)	870 (870)	0	9,243 (9,243)
3. Incremental Salaries	0	0	240 <u>d/</u> (108)	0	240 (108)
4. Local Input	0	0	0	6,668 <u>e/</u>	6,668
Total	6,100 (6,100)	2,273 (2,273)	8,959 (8,827)	6,668	24,000 (17,200)

Note: Figures in parentheses are the respective amounts financed by the Bank.

a/ Local Competitive Bidding (LCB) if estimated contract value lies between US\$25,000 and US\$250,000.

b/ International Competitive Bidding (ICB) if estimated contract value is for the equivalent of US\$250,000 or more.

c/ Other methods include local and international shopping and contracting of consultants in accordance with Bank guidelines.

d/ Financed on a declining basis.

e/ The Government's contribution of approximately \$6.8 million would consist largely of counterpart staff, local consultants, office space, supplies, secretarial services and vehicle operations.

Disbursements
(US\$ Millions)

Category	Amount	Percentage
1. Consultant Services & Training	7.9	100%
2. Equipment	9.2	100% foreign expenditures and local expenditures (ex-factory cost), and 78% locally-procured imported items.
3. Incremental Salaries	0.1	100% of expenditures until December 31, 1992, up to US\$60,000 total; 50% of expenditures until December 31, 1993, up to US\$30,000 total; 25% of expenditures thereafter.

Estimated IBRD Disbursements
(US\$ Millions Equivalent)

	FY91	FY92	FY93	FY94	FY95	FY96	FY97
Annual	0.5	3.0	4.2	6.5	2.0	0.5	0.5
Cumulative	0.5	3.5	7.7	14.2	16.2	16.7	17.2

Schedule CCHILE - SECOND PUBLIC SECTOR MANAGEMENT PROJECTTimetable of Key Processing Events

(a) Time taken to prepare	Eighteen months
(b) Prepared by	Government with Bank assistance
(c) First Bank mission	June 1990
(d) Appraisal mission departure	May 1991
(e) Negotiations	July 1991
(f) Board Presentation	October 1991
(g) Planned date of effectiveness	October 1991
(h) List of relevant PCRs and FPARs	First Public Sector Management Project (2504-CH)

THE STATUS OF BANK GROUP OPERATIONS IN CHILE

A. STATEMENT OF BANK LOANS AND IDA CREDITS (as of March 31, 1991)

Loan or Credit Number	Fiscal Year	Borrower	Purpose	US\$ Million		
				Amounts (less cancellations)		
			Bank	IDA	Undisbursed	
35 loans and one credit fully disbursed			1,538.9	22.88 ^{1/}	0.0	
2481	1985	Chile	Agri. Serv./Credit	56.0	-	7.5
2504	1985	Chile	Technical Assistance	6.5	-	0.1
2606	1986	Chile	Ind. Fin. Restructuring	100.0	-	1.2
2613	1986	CORFO	Small & Med. Industry	40.0	-	5.8
2651	1986	EMOS	Santiago Water Supply	60.0	-	49.5
2832	1987	CORFO	Hydroelectric	50.5	-	33.3
2833	1987	ENDESA	Power Transmission	21.5	-	5.8
3028	1989	Chile	Urban Streets & Maint.	75.0	-	52.8
3030	1989	Chile	Housing II	200.0	-	53.5
3053	1989	Chile	Industrial Finance II	75.0	-	10.7
3120	1990	Chile	Road Sector II	224.0	-	155.1
3143	1990	Chile	Financial Markets	130.0	-	74.9
TOTAL			2,577.4	22.9		
of which has been repaid			527.4	8.8		
TOTAL NOW OUTSTANDING			2,050.0	14.1		
AMOUNT SOLD			7.2			
of which has been repaid			7.2			
TOTAL NOW HELD BY BANK AND IDA			<u>2,042.8</u>	<u>14.11</u>		
TOTAL UNDISBURSED					<u>450.2</u>	

^{1/} Includes exchange rate adjustments. The original amount of the credit was US\$10.0 million.

B. STATEMENT OF IFC INVESTMENTS (as of March 31, 1991)

Fiscal Year	Obligor	Type of Business	Amount in US\$ Million		
			Loan	Equity	Total
1958, 1959 1966, 1984	Empresa Minera de Mantos Blancos	Copper mining	37.30	9.25	46.55
1959 and 1965	Fideos Y Alimentos Carozzi S.A.	Food products	1.50	0.15	1.65
1960, 1961 and 1965	Cemento Bio-Bio S.A.	Cement	1.20	0.10	1.30
1963	Cia. Manufacturera de Papeles Cartones (CMPC)	Pulp and paper	3.00	-	3.00
1970	Minera Segasa S.A.	Copper mining	10.45	0.45	10.90
1982	Inverchile	Money and capital markets	-	0.20	0.20
1986, 1988	Cape Horn	Chemicals & petro- chemicals	95.0	5.0	100.0
1986	Compania de Carbones de Chile (COCAR)	Mining	16.50	2.20	18.70
1987, 1988 and 1989	Arauco	Pulp and paper	130.87	-	130.87
1988	Chile Fund (CIC)	Money and capital markets	-	4.65	4.65
1988	IMCO	Money and capital markets	-	.06	.06
1989	IICC	Money and capital markets	-	3.75	3.75
1989	Escondida	Mining	70.00	15.00	85.00
1990	Five Arrows	Money and capital markets	-	4.85	4.85
1990	Celpac	Pulp and paper	73.00	10.00	83.00
1991	Andino	Money and capital markets	10.00	-	10.00
1991	CTC	Utility	80.00	19.09	99.09
	Total gross commitments less cancellations, terminations, repayments and sales		528.82	74.75	603.58
			<u>219.04</u>	<u>34.02</u>	<u>253.14</u>
	Total commitments now held by IFC		<u>309.78</u>	<u>40.66</u>	<u>350.44</u>
	Total undisbursed		59.97	4.12	64.09

1/ In addition, \$55 million in loan and quasi-equity was approved in March 1989 for a pulp and paper project.

CHILESECOND PUBLIC SECTOR MANAGEMENT PROJECTSECTION A. PROJECT DESCRIPTION

1. Background. Over the past two decades, Chile's public sector has experienced a number of important structural changes. Central government employment and expenditures have been reduced, while important functions (e.g., social security, education) have been partly privatized or decentralized to municipal governments. Government's role in guiding economic activity has been reduced and rationalized, and most public enterprises have been divested. More recently, the Central Bank was given autonomous status, and civil service protection extended to most government employees. These changes have been supported by the Bank, including the First Public Sector Management Project (PSM I). That project increased public sector efficiency through the finance of management improvements in several public agencies.
2. Despite the contribution of the policy reforms of the prior two decades, the new Administration entered office in March 1990 facing a number of potentially serious problems in public sector management. They include (i) risk of fraud and tax evasion and inefficient resource allocation in institutions responsible for tax collection and benefits administration; (ii) insufficient objective and analytic information to inform legislative actions in economic policy; (iii) inadequate analyses of fiscal, trade, and market policies to inform ministerial decisionmaking; and (iv) potential paralysis in decisionmaking on interministerial issues. While each problem has a number of distinct causes, the more important causes are: (i) outdated or obsolete computer and information systems in financial management institutions, combined with reductions in personnel or increases in workload; (ii) lack of investment in and neglect of public institutions responsible for informing legislative decisions on economic policy; (iii) institutional changes that remove Central Bank analysts from the Ministry of Finance and create privatized natural monopolies requiring government regulation; and (iv) redundant ministerial responsibilities combined with inadequate mechanisms for coordinating policies across ministries.
3. Project Components. The Second Public Sector Management Project (PSM II) would finance the services of international and national consultants, both long and short term, staff training, equipment, and studies to (i) increase the efficiency and effectiveness of Government operations to raise revenues and administer benefits; (ii) improve economic policymaking of the legislature through provision of information, analysis, and communication; (iii) improve economic policy analysis and implementation of the Ministries of Finance and Economy; (iv) improve policy coordination and government organization; and (v) ensure sufficient capacity to coordinate and manage the project. A matrix of key project activities and objectives is included as Attachment I to this Technical Annex.
4. The efficiency and effectiveness of Government operations to raise revenues and administer benefits are increased by financing consultants, equipment, and training to four financial management institutions: the Internal Revenue Service (Servicio de Impuestos Internos), the Treasury (Tesoreria),

Customs (Aduanas), and the Social Security Institute (Instituto de Normalización Previsional).

5. Legislative information, analysis, and communication to improve economic policymaking is enhanced by financing consultants, equipment, training, and studies to: strengthen information and reference services provided by the Library of Congress (LOC); and increase the utilization of information and analysis in policymaking by educating users and improving the communications system between the LOC, the Congress, the Ministries, and other users of Library services.

6. Economic policy analysis and implementation are improved by financing consultants and supporting equipment and studies to the Ministries of Finance and Economy.

7. Policy coordination and government organization are improved by financing studies to examine interministerial problems and issues, including an external evaluation of the IMCs leading to recommendations for improvements.

8. Capacity to coordinate and manage the PSM II project are increased by financing consultants to manage consultant contracts and equipment procurement, prepare semiannual and annual project reports, and monitor the progress of all project components.

9. PSM II will complement technical assistance provided by other international and bilateral agencies. UNDP initially financed key staff positions in several ministries to enable the Government to operate under severe budgetary restrictions during its first year in office. USAID has provided assistance to the Catholic University of Valparaiso to provide training for the new Congress.

10. Past Experience. Past Bank experience with free-standing technical assistance loans provides several lessons that are incorporated in the design of PSM II. These lessons are derived from OED assessment of free-standing technical assistance in Africa and LAC Technical Department evaluations of recently completed public sector management projects in Chile (2504-CH) and Peru (2204-PE).

11. These lessons include: (i) TA projects should be limited in scope to permit adequate preparation, focused implementation, and adequate supervision; (ii) Borrower commitment is essential to develop a sense of ownership of project activities in affected institutions, resulting in effective implementation; (iii) unallocated funding in the project design should be minimized; (iv) there should be continuity in project management; (v) terms of reference for consultants and studies should be spelled out in detail prior to project negotiations; and (vi) there should be periodic evaluation of projects to permit adjustments in design and implementation arrangements.

12. The First Public Sector Management Project (PSM I), which closed on December 31, 1990, demonstrates some of these lessons. As approved by the Board on March 14, 1985, the loan provided US\$11.0 million to improve: (i) public sector investment planning; (ii) public enterprise management; (iii) economic statistics; and (iv) export promotion activities. Only those proposed consultancies and studies for which detailed terms of reference were prepared prior to project effectiveness were implemented quickly. Since there were

US\$2.0 million in unallocated funding and most consultancies and studies were not well-defined, only 5 percent of the loan was disbursed two and one-half years after the date of effectiveness. A cumbersome arrangement for project administration combined with frequent changes in project coordinators contributed to implementation delays.

13. Slow implementation, changing country conditions and needs, and renewed commitment by the Government to the project led to changes in project priorities, reduction in the loan amount to US\$6.5 million, and full specification of all project components in February 1988. The revised project provided financing for: (i) public sector investment and planning (US\$2.0 million), including a household survey to assess social program targeting, developing a regional data network to expedite work of the Contraloria, and conducting an organizational study of Fiscalia to recommend improvements in the Government's capacity to identify and prosecute anticompetitive practices; (ii) public enterprise management (US\$ 1.7 million), including development of a management information system to facilitate operation of the Santiago subway as an independent enterprise and development of administrative structures and information systems to reorganize the state-owned water company (SENDOS) into regional corporations; (iii) economic statistics (US\$ 1.7 million), including a household survey to develop new market basket weights for the CPI; (iv) export promotion (US\$0.5 million), including strengthening PROCHILE to provide technical assistance to small and medium-sized exporters through commercial information systems and international marketing; and (v) other technical assistance, including development of a methodology to measure the environmental impact of energy projects, development of consumer standards for electrical appliances, and development of a fisheries model.

14. Project revision also led to project administration being streamlined, with the project coordinator subsequently given substantial authority and autonomy. Subsequent to this date, there was substantial continuity in project personnel, and project implementation proceeded with few problems, although the long delay in initiating many project components resulted in two extensions to the loan closing date. Information obtained for the purpose of writing the Project Completion Report (PCR) demonstrates that almost all project components attained their stated objectives, and most project results are being sustained through followup and implementing activities on the part of affected Government agencies. PSM I project activities and results are summarized in Attachment 2 to this Technical Annex.

15. The lessons learned from past stand-alone TA loans, and especially the experience with PSM I, have been incorporated into the design of PSM II. The design of the project also has been guided by Bank country strategy aimed at maintaining the policy framework and improving public sector efficiency both in terms of facilitating well-informed policy and budgetary decisions and carrying out those decisions in a dynamic decisionmaking and implementation environment. Thus, the project strengthens the decisionmaking capacity of select Government institutions as well as modernizes and enhances the capacity to implement existing policies. While different from PSM I in terms of specific project components, PSM II and PSM I are similar in terms of broad objectives and sustaining support for country strategy.

16. In addition to being consistent with country strategy and objectives, the scope of PSM II has been guided by: (i) Borrower commitment to project objectives and components; and (ii) requirements for effective project

administration and supervision. The initial impetus for the project and its components came from the Government, which demonstrated its further commitment by requesting a Project Preparation Facility (PPF) to facilitate and expedite project preparation. The Government has consistently reiterated the high priority it attaches to rapid approval and implementation of PSM II, while recognizing the constraints on processing imposed by the limited experience of many Government decisionmakers with project preparation activities. Effective project administration and supervision requires both a limited, well-defined project scope and detailed preparation of all project components. The scope of PSM II has been limited to four well-defined components, with two components representing 80 percent of loan funds. Terms of reference, including quarterly activity and disbursement plans, were prepared for all consultants and studies during appraisal, and draft bidding documents were reviewed during negotiations. To facilitate administration and supervision, indicators of project activities and outputs were agreed to during negotiations, including those indicators to be used for supervision.

17. Environment. The project does not directly address environmental considerations, in large part because other Bank operations will focus solely on technical assistance to improve environmental institutions. PSM II indirectly affects environmental issues, however, through its strengthening of the IMCs, which may discuss environmental issues in the context of infrastructure or business development policy.

I. FINANCIAL MANAGEMENT

18. Four Government institutions have principal responsibility for revenue collection (including taxes, social security and social insurance contributions) and benefits administration (including disability, pension, and family benefit payments). These are the Internal Revenue Service (IRS), the General Treasury, the Customs Office, and the Social Security Institute (SSI). The IRS maintains a register of all active taxpayers of the value added tax (VAT), the income and property taxes and audits taxpayer accounts and returns. The General Treasury is responsible for collecting payments due for the VAT, income, and property taxes; it determines tax liability arrears and receives payments of both current tax liabilities and arrears. Customs reviews taxpayer self-assessments of import duties; inspects and analyzes imported goods; and administers the export subsidy program. The SSI collects pension and health contributions; maintains tax payment, pension benefit, and family benefit records; audits taxpayer accounts and determines arrears; determines pension eligibility and makes pension payments; and issues family benefit payments (asignaciones familiares).

A. Framework

19. The Chilean tax system is designed to avoid distortions in relative prices and preserve market signals and incentives, although tax loopholes affect this ideal perspective. Unlike most other countries in the region, the Chilean tax administration environment is generally favorable. Taxpayers essentially support compliance enforcement; tax evasion is not socially sanctioned; and the informal economy is relatively small. Inflation has not negatively affected tax administration because tax laws include automatic inflation adjustments. Finally

the legal system is stable, and enforcement rules are adequate to deter noncompliance.

20. Government revenues show a declining trend over the last decade. Revenues dropped almost 4 points of GDP during the 1980s despite the recovery of copper prices in 1988. Tax revenues remained relatively constant, while user charge revenues increased. Capital revenues derived from the privatization of public enterprises were an important revenue source from 1982 to 1987. In response to lower revenues and increased demand for social sector spending, the Government increased tax rates in 1990.

21. The composition of tax revenues was changed by tax reforms in 1975, 1984 and 1990. In 1975, the value added tax (VAT) was introduced as the main tax revenue source for Chile, and corporate income tax rates were substantially reduced. In 1984 and 1990, the income tax evolved towards an expenditure tax due to the exclusion of savings from its base, and rates were lowered on both the income tax and VAT. The Chilean tax system currently consists of a few broad based taxes at nearly uniform rates.

22. In contrast to most Latin American countries, this evolution to a large extent reflects a deliberate effort of the government to define simultaneously an efficient tax system and adjust it to reduced public expenditures. Increased evasion and fraud, especially in export tax rebates (VAT and import duties) and export subsidies, have resulted in growing revenue losses to the Government. Increased evasion and fraud in turn may be the result of an increasingly outdated tax administration system.

23. Increased evasion and fraud signals the possibility of future fiscal problems. The windfall of copper revenues may be transitory, and the disappearance of capital revenues from privatization is evident. The VAT rate is sufficiently high to raise questions about the desirability of further increases to compensate for decreases in copper revenues, especially following the 1990 VAT tax rate increase. Hence, further reducing the gap between actual and potential revenue of the existing tax system becomes an attractive option. To do so will require modernization of the tax administration system.

24. The organizational design of Chile's tax administration is unusual. The division of work between tax assessments (IRS and Customs) and tax payments (Treasury) is not common. IRS and Customs are responsible for determining tax liabilities, but the General Treasury has responsibility for actual collections. This division of responsibilities causes some operational redundancies and inconsistencies, but it may also contribute to a solid audit control technology.

25. Chile also differs from most Latin American countries in the effective functioning of its tax administration. While most Latin American countries have unsuccessfully addressed the problem of the current account, Chile's Treasury has achieved a relatively sophisticated integration of tax accounts by taxpayer. In addition, Chile's audit operation is among the best in Latin America. While the overall system currently functions well, further modernization could yield significant revenue gains as well as improvements in tax administration efficiency.

B. Internal Revenue Service

26. The IRS is responsible for tax law enforcement, especially as regards the Value-Added Tax (VAT) and the personal and business income taxes; these taxes represent 79% of total tax revenues and 37% of all government revenues in Chile. Enforcement consists of detecting evasion through inspection of data bases and through audits; enforcement contributes to government revenues by ensuring tax compliance.

27. The IRS has 2,800 employees at a central office in Santiago, sixteen regional offices, and forty-six provincial or local offices; the decentralized offices process tax return information and transmit that information to Santiago for inclusion in the master file, which includes four years of data on each taxpayer, and subsequent analysis. Treasury complements the data with the centralized inclusion of payments. The regional offices and sixteen of the provincial offices have computer linkages to Santiago, while the remaining thirty local offices process and transmit information by hand.

28. Problems. Tax evasion affects both government revenues (increasing the overall fiscal deficit) and the equity of the tax system. While evasion rates in Chile are not high by Latin American standards, there is room for improvement. An IRS study, for example, estimates a VAT evasion rate of 35% on domestic transactions. In addition, the ratio of fiscal debit to fiscal credit, a widely used instrument to detect tax evasion, has declined in the industrial sector over the past decade. Finally, agricultural and other sectors that are exempt from submitting receipts to the IRS can conceal transactions and evade the VAT.

29. Auditing problems contribute to evasion. Under the present system, computer support to audits is centralized and lacks the flexibility and interactive features required for the auditor to build an individual audit strategy. Other problems that contribute to inefficiency include: (a) delays and inaccuracies in entering data in the master file caused by manual processing at the local IRS offices; (b) multiple (nine interactive information systems plus five batch systems) and incompatible data files at the central office due to limited computer capacity and antiquated file management design; and (c) inefficient allocation of IRS audit and enforcement resources. The latter problem is due to the fact the IRS does not collect the information necessary either to assess its own performance in deterring evasion or to allocate optimally its own resources to maximize its effectiveness.

30. Planned Technical Assistance to the IRS (US\$2.3 million in proposed Bank financing). IRS performance could be strengthened through improvements in data collection, processing, and analysis to detect fraud and evasion. The project will consist of expanding and improving the information system to the thirty local offices not yet connected to the computer network; redesign of master file data bases to facilitate data use and analysis; expansion of central computer capacity to support the new data base structure; improvements in other hardware and software to facilitate use of the data bases by auditors; and development of an information system and analytic methods to yield current data on the performance and productivity of tax administration activities.

31. The results of these improvements would be increased individual auditor productivity, improved data quality and access, reduced fraud and evasion, and increased tax revenues. The IRS estimates a minimum 1 percent

reduction in VAT evasion, which would generate almost US\$9 million in additional annual revenue. The information and analytic system would also permit quarterly reports on tax performance and efficiency over the life of the project. Another important result would be improved efficiency in IRS resource allocation.

32. During negotiations, agreement was reached that: (i) the IRS will provide semiannual reports to the Project Coordinating Unit (PCU) on indicators of physical progress and project results satisfactory to the Bank (see Attachment I), which, in turn, the PCU will provide to the Bank; (ii) the action plan stated in Attachment II for the IRS will be carried out; (iii) to monitor overall agency performance, the Government would collect data and measure the tax evasion detected and thereafter collected as a percentage of total tax collections and will furnish such measurements to the Bank commencing July 1, 1992, and by January 1 and July 1 of each year thereafter for the life of the project. The IRS will prepare and report such measurements which the PCU will then provide to the Bank. A condition of disbursement for the Internal Revenue Service assistance is the appointment of a subproject component coordinator satisfactory to the Bank.

C. Customs

33. During the last few years, trade activity has increased substantially as a consequence of the opening of the economy. Exports have grown dramatically, and tax rebate systems have been established. Though desirable in principle, tax rebates are difficult to administer properly and have a high incidence of fraud. The time required for Customs to control trade transactions to deter fraud conflicts with the Government's policy goal of facilitating trade.

34. The Customs Office in 1989 had a budget of US\$6 million and 1100 employees in a central office (Valparaiso), nine regional offices, and 165 border stations. It is responsible for enforcing trade laws, determining and collecting import duties (US\$2.1 billion annually), administering the Government's program of subsidies to nontraditional exports (US\$0.8 billion annually), administering the reimbursement of duties paid on inputs used to produce exported goods, administering the reimbursement of value-added taxes paid on exported goods, generating trade statistics, and expeditiously processing documents to facilitate trade.

35. Problems. Customs faces problems of evasion in paying import duties and fraud in programs to subsidize nontraditional exports as well as reimburse payments of import duties and the VAT on exported goods. While there are no reliable estimates of the overall magnitude of these problems, there have been numerous, well-publicized cases of large-scale fraud and evasion; known fraud caused about US\$20 million in revenue losses in 1990. These problems are the result of increased workload, outdated computer hardware and software systems, poorly trained agents, antiquated customs laboratory facilities, and agency inefficiency.

36. The workload of Customs has expanded in recent years while its resources have diminished. Total trade (imports plus exports) increased 48% between 1980 and 1989, while the number of customs employees increased by 17%, and the customs budget decreased by 20%. In this same time period, important new programs administered by customs were introduced, including the subsidy to nontraditional exports introduced in 1985, reimbursement of duties paid on inputs to produce exported goods introduced in 1988, and reimbursement of VAT levies on

exported goods also introduced in 1988. In addition, in 1989 Chile adopted a new standardized international classification system for goods.

37. The obsolescence of existing computer hardware and software has had a number of negative effects, including: long delays in data entry and computer communications, thus limiting the information available to customs agents for determining values of goods, appropriately classifying goods, and detecting fraud and evasion; and severely reducing complementary linkages to other tax administration agencies (IRS and Treasury). These problems, together with the lack of training for either new or experienced customs agents, serve to limit agent productivity. An outdated customs laboratory restricts the capacity of Customs to analyze traded goods and leads to errors in that analysis; the result is failure to examine and correctly classify goods, which reduces the ability to detect and deter evasion and fraud in tax collection and export subsidy administration. Finally, Customs lacks a management information system that sets targets or monitors quantitative performance of the regional offices and border stations or generates the information required to allocate optimally enforcement and collection resources to areas of high fraud probability.

38. Planned Technical Assistance to Customs (US\$1.7 million). The project would finance the development of a modern computer and communication system to improve the auditing function in Customs; development of the capacity for the Agency to provide specialized training to its agents; rehabilitation of the Customs chemical laboratory; and development of an information system to assess and monitor efficiency in budgetary resources. The technical assistance will occur in two phases--first, the computer system, training, chemical laboratory, and information system will be designed; second, the computer hardware, software, training, and laboratory improvements will be implemented. The development of agency performance indicators will be included in the design.

39. The project should result in several tangible benefits, including improved product classification and valuation; faster data processing; reduced administrative time required of customs agents, and thus increased agent productivity; more effective training of agents, also resulting in increased productivity; improved and more timely statistical reports on trade to the Ministry of Finance; and information on agency performance.

40. During negotiations, agreement was reached that Customs will provide semiannual reports to the PCU on indicators of physical progress and project impact satisfactory to the Bank (see Attachment I) which the PCU will then provide to the Bank. During negotiations, agreement was also reached that the action plan stated in Attachment II for Customs will be carried out. To monitor overall agency performance, during negotiations agreement was reached that the Government would collect data and measure: (a) import duties charged as a percentage of the value of total imports; and (b) export subsidies granted as a percentage of the value of total export subsidies, and furnish to the Bank such measurements commencing July 1, 1992, and by December 1 and July 1 of each year thereafter for the life of the project. Customs will prepare and report such measurements for the PCU to provide to the Bank. A condition of disbursement for the Customs component is the appointment of a subproject coordinator satisfactory to the Bank.

D. Treasury

41. The Treasury has a total of 1,130 employees, including those who work in the General Treasury in Santiago and in the 26 regional and provincial offices. The decentralized offices are connected via a national computer network and are responsible for government revenue collection including taxes (IVA, income, property taxes), debts (e.g., student loans), arrears, fines, and penalties; maintenance of a taxpayer master file (the Cuenta Unica Tributaria or CUT) that keeps track of payments and outstanding balances; and distribution of revenues. The Treasury contracts with private institutions, principally banks, to collect most revenues. Payments are recorded on sixty different types of forms, with approximately 1.4 million such documents processed each month. The central office receives documentation from regional offices; enters the data (with about 40% of the effort contracted privately); validates it; develops current reports for the Comptroller General, the Ministry of Finance, and the Central Bank; and updates the master file. In addition, the Treasury monitors and enforces the collection of past-due debts; allocates revenues in accordance with the Budget Law or other laws (e.g., distribution of property tax revenues to municipalities); and returns excess tax payments (e.g., the personal income tax).

42. Problems. There are long delays (six weeks) in recording transactions in the system, and a high error rate (2%) of data entry that threatens the quality of the results; these data problems prevent the early identification and collection of erroneous payments. The data problem combined with inadequate collection capacity has resulted in accumulated overdue taxes exceeding US\$250 million, about 70% of which are collectible. These problems are due to insufficient computational and data processing capacity aggravated by peak workloads when income tax and property tax payments are due; insufficient personnel (especially legal staff), with the total number of Treasury employees having declined by two-thirds over the past three years; and lack of an information system to develop performance indicators and improve management. These problems impair the capacity of the Treasury to respond to taxpayer inquiries; make it difficult to generate timely data for macroeconomic management; and reduce Government revenues through delays in detecting payment arrears. A further problem is approximately US\$2 million of annual fraud and forgery of Treasury checks.

43. Planned Technical Assistance to the Treasury (US\$1.6 million). Treasury performance could be increased through improvements in data, check, and bill processing timing and quality; improvements in data transmission to and use by regional Treasury offices; and introduction of an information system to permit the monitoring of the agency's performance. The project will consist of the introduction of new technology to handle peak workloads; modifications in existing computer hardware and software, and employee training to increase the processing and use of data in the regional and provincial offices; and design and implementation of a performance information system. The investments to be financed by the Bank would complement Government investments in the Treasury, especially the increase in the number of lawyers (currently twenty-eight) assigned to collect past-due debts.

44. The results of the technical assistance would be increased employee productivity, reduced processing time, reduced response time to taxpayer inquiries, more timely reports on revenue collections, shorter lags in providing information to regional offices on unpaid liabilities and past-due debts,

increased revenues, and improved resource allocation within the Treasury. The Treasury estimates annual additional revenues would increase by US\$9 million; an additional US\$17 million in debts would be collected as a result of the technical assistance; and check fraud would be substantially reduced. In addition, improvements in the information system would permit assessments of agency performance, which would provide the Government with information regarding the need for and likely results of further budgetary investments to improve Treasury operations.

45. During negotiations agreement was reached that the Treasury will provide semiannual reports to the PCU on indicators of physical progress and project impacts satisfactory to the Bank (see Attachment I) for the PCU to provide to the Bank. During negotiations agreement was also reached that the action plan for the Treasury outlined in Attachment II will be carried out. To monitor overall agency performance, during negotiations agreement was reached that the Government would collect data and measure the recovery of tax arrears as a percentage of total arrears and furnish such measurements to the Bank commencing July 1, 1992, and by January 1 and July 1 of each year thereafter for the life of the project. The Treasury will prepare and report such measurements for the PCU to provide to the Bank.

D. Social Security Institute (SSI)

46. Decree Law 3502 of 1980 created the SSI, an agency under the Ministry of Labor and Social Security, for the purpose of managing the unfunded social security system; approximately four million individual accounts remain in that system after the change to funded pension plans. Between 1980 and 1988 twenty-one separate public pension funds with their respective employees, accounting systems, and operating procedures were integrated into the INP.

47. As presently constituted, the SSI has large and complex responsibilities. It makes monthly pension payments to 1,720,000 beneficiaries for a total of US\$1.2 billion annually, and collects monthly social security and insurance taxes from 330,000 employers and 2,200,000 workers. In addition, it pays monthly benefits (Asignaciones Familiares) to 1,500,000 families and processes some 60,000 new pensions annually. While most of the routine data processing operations are provided by private sector contractors, the SSI is responsible for management of the system.

48. Problems. The SSI lacks the capacity to fulfill adequately these diverse responsibilities. The results are high tax evasion, tax arrears, fraudulent pension claims, long delays in determining pension benefits and responding to member inquiries, and administrative inefficiency. Accumulated tax arrears are estimated at about US\$500 million. In addition, annual tax evasion is estimated at US\$15.8 million, and fraudulent pension claims are conservatively estimated at US\$16 million annually. Delays in processing and evaluating pension benefit claims are as long as 12 months. Administrative errors are high, with 65% of all pension benefit applications incurring errors at some stage of processing.

49. These problems result from the failure to integrate completely the personnel and administrative systems of the twenty-one pension funds that comprise SSI; lack of control over the production process; lack of reliable and accessible data bases on tax and insurance payments, employment and salary

histories of individual contributors and beneficiaries; and lack of a modern system to detect tax evasion.

50. Planned Technical Assistance to SSI (US\$2.0 million). The Government has initiated efforts, beginning with the FY91 budget, to solve the fraudulent claim problem through investments to permit accurate monitoring of legal actions and to increase the productivity of the INP legal staff.

51. The project would finance investments in revenue collection and pension benefits administration to complement the Government's investment. Revenue collection would be improved through consultancies, equipment, software, and training to reorganize collection and enforcement activities and implement a system of evasion control. The revenue collection component would include a diagnosis of the existing system, construction and cleaning of a taxpayer data base, design of a system to control evasion and improve collections, implementation of the system, and development of performance indicators and the establishment of an information system to measure and monitor performance. The results will include increased employee productivity, improvements in tax collection, reductions in tax evasion, and semiannual performance reports over the life of the project.

52. Pension benefits administration would be improved through consultancies, equipment, software, and training to integrate the twenty-one funds in one data processing system; systematically determine the legal restrictions and obligations of each fund; clean and construct accurate data bases on individual accounts and current account payments; design and implement an information system that allows employees rapid and accurate access to account information; and development of performance indicators and the establishment of an information system to measure and monitor performance. The results will include increased employee productivity, increased capacity to identify problems in collections and payments, and semiannual performance reports over the life of the project.

53. During negotiations, agreement was reached that the SSI will provide semiannual reports to the PCU on indicators of physical progress and project impacts satisfactory to the Bank (see Attachment I) for the PCU to provide to the Bank. During negotiations, agreement was reached that the action plan stated in Attachment II for the SSI will be carried out. To monitor overall agency performance, during negotiations agreement was reached that the Government will collect data and measure: (a) tax evasion detected and thereafter collected as a percentage of total tax collections; and (b) the number of errors, unit costs, and elapsed time in processing pension applications and furnish such measurements to the Bank commencing July 1, 1992, and by January 1 and July 1 of each year thereafter for the life of the project. The SSI will prepare and report such measurements for the PCU to provide subsequently to the Bank.

II. LEGISLATIVE INFORMATION AND ANALYSIS FOR ECONOMIC POLICY

54. With the March 1990 change in government, economic legislation now can originate with either the executive branch or the Congress in Chile, but both branches of government as well as private foundations, universities, and other analysts play a role in designing and approving economic policies. Under the Constitution of 1980, Congress has the authority to approve or modify the

proposed budget; to approve or amend legislation introduced by the executive branch; and to introduce legislation. Congress cannot increase expenditure categories in the budget, and it cannot introduce spending legislation, although it can introduce other legislation that affects economic policies. Political experts widely believe the budget role of Congress is likely to increase over time as Congress acquires more budgeting expertise and experience.

55. To carry out effectively its responsibilities in budgetary and economic policy, the legislature and other legislative actors require comprehensive, pertinent information and impartial analysis. Modern legislatures receive such information from diverse sources: universities, political think tanks, interest groups, government agencies, and legislative libraries and research services. In Chile, universities are providing assistance to Congress on an experimental basis. Both ILADES and the Catholic University of Valparaiso have received short-run external funding to provide mainly constitutional and legal analyses to the Congress. Think tanks affiliated with political parties, like CIEPLAN and the Instituto Libertad y Desarrollo, have the reputation for providing high quality, if partisan, analyses. With few exceptions (e.g., SOFOFA) interest groups do not play an organized, important role in informing Congress. Government ministries and the Secretariat of the President provide information to Congress concerning legislation proposed by the executive branch. Finally, the Library of Congress (LOC), authorized by the Constitutional Law of the Congress (Law 18,918 of February 5, 1990) as part of the administrative offices of the Congress, has the responsibility to provide nonpartisan, objective information to the Congress and other users. The Director of the LOC is appointed by and reports to the Congressional leadership (Presidents of the Senate and the House of Deputies). The LOC and its 24 professional librarians do not typically directly respond to requests from individual legislators; rather, LOC staff usually work closely with the staff of the twelve legislative commissions of both the House of Deputies and the Senate, the professional staff of the Information Centers of the House and Senate, and requests from academic and other users. These staff have the responsibility of assembling information and analyses on current issues before the Congress.

56. Problems. Legislative libraries and research services play a very important role in informing policymakers and legislatures in most advanced democracies. (Germany is an exception with its reliance on government-funded, partisan think tanks.) The LOC has traditionally provided library reference and bill-tracking services to the Congress and other library users; for example, the LOC maintains a computer in Valparaiso to record the country's laws and to track legislation and participates in an on-line bibliographic information exchange with the National Library and university libraries. Both the capacity of the LOC to serve its users and the ability of Congressional staff to use the services of the LOC to inform Congress have deteriorated significantly over the past seventeen years of inactivity.

57. The LOC lacks the capacity to: (i) search quickly and retrieve information in response to user requests; (ii) provide analyses and summaries of information; and (iii) effectively and quickly communicate with users. These problems are caused by antiquated library technology, insufficient and outdated holdings, inadequately trained reference librarians, and lack of a communications network tying the LOC to users, especially in the Congress. The existing communications network consists of a LOC on-line linkage to the Valparaiso computer. Congressional staff and other users lack the knowledge and experience to use effectively LOC services and lack a communications network to facilitate

such use. The latter is especially important given the current locations of the LOC (Santiago) and the Congress (Valparaiso). The project would improve both the capacity of the LOC to serve Library users and increase their ability to use effectively the LOC, thereby improving legislative information and economic policy formulation.

58. In Chile the Executive branch plays an important legislative role. The President delegates to the Secretariat of the Presidency (SEGPRES) the overall responsibility for coordinating legislative initiatives with the Congress, including managing initiatives originating in the diverse ministries and communicating them to Congress. The importance of this role is demonstrated by the fact that in the past year the Executive has originated most (90%) of the bills considered by the Congress including the annual budget bill. The legislative management role of SEGPRES is exercised by the Legislative Division, which communicates texts, summaries, and technical analyses of bills and amendments to the Congress. At present, this management function is impeded by the lack of on-line communications with either the Congress or the LOC. In addition, the quality of technical analyses that precede legislative initiatives could be improved through access to LOC information and Congressional staff analysis.

59. Planned Technical Assistance to Strengthen Information and Reference Services (US\$ 3.1 million). The capacity of the new Congress to evaluate economic legislation is strongly tied to the quality of information and analyses it receives from the LOC, the Ministries, and Congressional staff. LOC collections need to be expanded and updated, including the addition of international data bases, and the acquisition and cataloging systems should be computerized. Reference librarians need additional specialized training, including in the use of new data bases and new library technology as well as new skills in reporting and analyzing information for users. The project will finance technical assistance to expand and automate collections; train librarians in modern legislative reference techniques, the use of new technology, and economic and fiscal analysis; and provide the LOC with the computer hardware and software required to relate large data bases. These improvements will benefit Congress as well as the executive branch and other LOC users, including university researchers. The results will include quicker response by the LOC to more user requests for more complete information covering a wider range of issues.

60. Planned Technical Assistance to Facilitate Use of the System (US\$ 2.2 million). The LOC requires a modern communications system for effective use of the Library by consumers, including Congressional staff, Government ministries, and university researchers. Given the physical distance between the LOC and the Congress, one important requirement of the system is the ability of users to make requests and receive responses on-line. Proposed counterpart financing by the European Economic Community will further link the LOC to regional offices of the Congress, thereby ensuring national access to the system.

61. The important role of the Executive in initiating and providing technical analyses of legislation requires that it have the capacity to "feed" the LOC and thus provide information to the Congress. The project would finance the design and installation of a communications system between principal LOC users, including Congressional staff, SEGPRES staff, and the Library; this includes hardwiring staff terminals to a "gateway" computer connected to the Library.

62. The effectiveness of Congressional staff in soliciting information from the LOC and generating high-quality, useful evaluations for the Congress depends on the analytic capacity of the staff as well as the quality and quantity of information available from the LOC. The existing Congressional staff lacks analytic skills and knowledge of how the services of the LOC should best be utilized. Hence, the project will finance consultants expert in legislative analysis to train existing staff.

63. A Congressional Coordinating Unit (CCU) in the Congress will be established to execute this project component. The CCU administrator will report to the Congressional leadership (the Presidents of the Senate and the House of Deputies) and the group of Senators and Deputies that comprise the Bilateral Commission and advise the Congressional leadership. For the purposes of project design and implementation, the Director of the LOC will report to the CCU administrator. The CCU will maintain records and accounts for this project component and will submit them to the PCU for auditing with other project component accounts; will, with the Director of the LOC, develop training programs for Library staff and Congress staff; will, with the Director of the LOC and SEGPRES, prepare terms of reference for consultants and prepare bidding documents for equipment; and will contract consultants and studies and equipment purchases.

64. During negotiations, agreement was reached that the Congress through the CCU will provide semiannual reports to the PCU, satisfactory to the Bank, on indicators of physical progress and project results (see Attachment I) for the PCU then to provide to the Bank. During negotiations, agreement was reached that the action plan for the Congress outlined in Attachment II will be carried out. To monitor overall agency performance, during negotiations agreement was reached that the Congress through the CCU will collect data and measure: (i) the number of requests for information and analysis from the Library of Congress, and (ii) the amount of staff time to retrieve information required for legislative analysis, and will furnish such measurements to the Bank commencing July 1, 1992, and by July 1 and December 31 of each year thereafter for the life of the project. Conditions of disbursement for the Congress component are: (i) the establishment of a Congressional Coordinating Unit (CCU); (ii) the appointment of a sub-project coordinator satisfactory to the Bank and; (iii) the signing of an agreement between the Ministry of Finance and the Congress setting forth their respective responsibilities (described in para. 63 above) with respect to the Congress component under terms satisfactory to the Bank.

III. ECONOMIC POLICY FORMULATION AND ANALYSIS

65. The responsibility for economic policy formulation and implementation in the Government is shared by the Central Bank and the Ministries of Finance, Economy, and Planning, with most decisionmaking power centralized in the Ministry of Finance. The Ministry of Finance is responsible for fiscal policy (revenue collection, budgeting, investment priorities, and expenditure authorization); international economic relations (with the participation of the Ministry of Foreign Affairs); and, with the Central Bank, international financial relations (external debt and credit); and shares responsibility with the Ministry of Economy for export and foreign investment policies and approval of public enterprise budgets. In addition, the Ministry of Finance presides over the Macroeconomic Interministerial Committee (IMC) and participates in Central Bank

decisionmaking, which is consistent with the Organic Law of the Central Bank (October 10, 1990) requiring Bank policymaking to consider the economic views of the Government. That law also granted the Central Bank substantial autonomy, thus removing the large number of Bank economic analysts from the control of the Finance Minister.

66. The Central Bank has principal responsibility for determining the money supply, setting policies, and carrying out internal credit and foreign exchange operations, financing banks and other financial institutions, and participating in framing (with the approval of the Ministry of Finance) and signing accords with international financial institutions. The Central Bank has a decisionmaking Council of five members. The Minister of Finance participates in meetings but has no vote; the Minister can temporarily (for 15 days) suspend non-unanimous actions of the Council.

67. The Ministry of Economy is responsible for commercial and business policy (including ensuring competitive markets), foreign investment policy (shared with the Ministry of Finance), natural monopoly regulation (including pricing policies), export promotion, public enterprise policies (shared with other ministries), technological development, and consumer protection policies. In addition, the Minister presides over the Productive Sectors IMC. The importance of this Ministry has declined over the past two decades as most public enterprises have been privatized and markets have been deregulated.

68. The Ministry of Planning (MIDEPLAN) has the role of evaluating investment projects, maintaining the Project Data Bank (comprising over 40,000 projects), and coordinating bilateral financing of all development and social fund projects. MIDEPLAN does not set priorities or recommend projects; it only approves or disapproves them. The Ministry of Finance makes final decisions regarding investment priorities.

69. Problems--Ministry of Finance. The 1990 law granting the Central Bank autonomy left the Ministry of Finance without the capacity to provide independent analyses and economic projections to the Minister, who plays the lead role in setting fiscal and trade policies. For example, the Minister serves as President of the Macroeconomic Interministerial Committee, and the Ministry's staff also has the responsibility to support that Committee. As a result of this lack of analytic capacity, the Minister lacks adequate analyses of critical issues requiring decisions (e.g., free trade arrangements with Mexico and Venezuela; policy options for and consequences of further opening the capital market; evaluation of proposals to permit pension funds to invest abroad) as well as reliable projections of macroeconomic trends and predictions of the effects of policy changes on target variables. The lack of staff and policy analyses can result in erroneous policy decisions, delays in reacting to external shocks, and lags in responding to external requests for information and analysis.

70. Development of improved trade analyses is of particular interest to the Ministry given the open nature of the economy, growing interest in regional free-trade zones, and the fragmented nature of policymaking in this area. Of particular urgency is the analysis of proposed trading agreements, especially in light of Chilean free trade policy, which advocates a minimum of legal and customs barriers to trade. Proposed trading agreements need to be analyzed in terms of areas of interest, preferential tariff mechanisms, legislation, legal facilities for member countries, and timing of the process. The Ministry has satisfied the organizational requirements for providing such analyses by forming

an International Studies Unit and naming a chief of the unit, but the unit is neither fully staffed nor does it have the required expertise in specific analytic areas.

71. Development of econometric models for the projection of macroeconomic trends and the simulation of policy changes is of equally high priority to the Ministry. Since the granting of autonomy to the Central Bank, the Ministry has used econometric models earlier developed by economists at CIEPLAN; these models require improvement and updating. The Ministry has formed a Macroeconomic Studies Unit and named a chief to be responsible for carrying out such analyses, but the unit is neither fully staffed nor does it have the required expertise in specific analytic areas.

72. Planned Technical Assistance to the Ministry of Finance (US\$0.9 million). The Ministry of Finance lacks several elements of policy information consistent with its dominant role in macroeconomic policymaking and implementation. The Ministry has identified two high priority areas for further development--analysis of trade issues and development of econometric models for projection and simulation. The project would finance a total of four consultants and supporting equipment to assemble data bases and construct econometric models to be used in the analysis of trade and macroeconomic issues. In addition, the consultants would work with and help train mid-level analysts of the Ministry to develop and institutionalize long-run capacity within the Ministry to undertake future analyses of these issues and to operate and update the econometric models. Finally, the project will finance two studies of high priority to the Ministry, one evaluating specific trade proposals now before the Ministry and another evaluating alternative proposals to open the capital market. The results of this technical assistance should be improved analyses of specific policy issues, institutionalized capacity for trade and macroeconomic analysis, including macroeconomic projections, and policy simulations. Organizationally, the results of this technical assistance should be two study units with the capacity to provide economic reports and analyses to the Minister and to respond quickly to urgent decisionmaking demands of the Ministry.

73. During negotiations, agreement was reached that the Ministry of Finance will provide semiannual reports to the PCU, satisfactory to the Bank, on indicators of physical progress and project results (see Attachment I) that the PCU will then forward to the Bank. During negotiations agreement was reached that the action plan for the Ministry of Finance outlined in Attachment II will be carried out. A condition of disbursement for the Ministry of Finance component is the appointment of a minimum of three economists, of the six specified in the action plan, with the equivalent of a master's degree, to each of the International Studies and Macroeconomic Studies Units.

74. Problems--Ministry of Economy. The Ministry of Economy has significant responsibilities regarding natural monopoly regulation, market competition, investment, export, technological development, consumer protection, and public enterprise policies. Policies, legislation, and Ministry management are deficient in many of these areas. These responsibilities have gained importance as natural monopolies have been privatized, larger firms have merged, exports have grown to play a significant role in economic growth, and private foreign investment plans have increased.

75. The Ministry of Economy is currently confronted with a number of policy and management issues in natural monopoly regulation and consumer

protection. First, the national water and sewer service (SENDOS) was converted (with important technical assistance provided under PSM I) into twelve public corporations, the regulation of which is specified in several laws; these laws do not establish adequate mechanisms for the finance of new investments or the recovery by firms of investments in rural water supply. Second, the regulation of telecommunications pricing includes problems in setting the cost of capital, accounting practices allocating costs to regulated and nonregulated activities, analysis of assumptions used by firms in setting prices, and illegal provision of cross-subsidies to high-cost sectors. In addition, the Subsecretariat of Telecommunications has not adequately adapted to its role in a new technological and market environment. Third, the Superintendency of Gas and Electricity has similarly failed to adapt to its new obligations in an environment of privatized natural monopolies, marginal cost pricing, and market determined prices for oil and coal. Fourth, the organizational study of the Ministry's Antitrust Division (Fiscalia) financed under PSM I recommended that its capacity to detect and analyze anticompetitive practices be strengthened; that recommendation remains to be implemented. Fifth, the Consumer Protection Agency of the Ministry lacks the requisite organization to carry out its new responsibilities adequately.

76. Planned Technical Assistance to the Ministry of Economy (US\$1.1 million). The Ministry of Economy lacks the analytic and administrative capacity to analyze policy issues, formulate and recommend policies to the Ministry, and provide advice to those agencies responsible for policy implementation in natural monopoly regulation and consumer protection. Hence, the project would finance studies to diagnose management problems and design solutions for the Telecommunications Subsecretariat, the Electricity and Gas Superintendency, and the Consumer Protection Agency, and will finance consultants to analyze investment financing and water pricing for SENDOS, to analyze regulation of telecommunications pricing for the Telecommunications Secretariat, and to improve investigative capacity in Fiscalia.

77. During negotiations, agreement was reached that the Ministry of Economy will provide semiannual reports to the PCU, satisfactory to the Bank, on indicators of physical progress and project results (see Attachment I) that the PCU will then provide to the Bank. During negotiations agreement was reached that the action plan stated in Attachment II for the Ministry of Economy will be carried out. To monitor overall agency performance, during negotiations agreement was reached that the Government would collect data of substantive reorganization carried out in the regulatory agencies under its jurisdiction and furnish to the Bank such data commencing July 1, 1993, and by July 1 and December 31 of each year thereafter for the life of the project.

IV. POLICY COORDINATION AND GOVERNMENT ORGANIZATION

78. Governmental functions in Chile are divided among a large number of agencies, sometimes resulting in overlapping responsibilities. As with all governments, activities and policies of one agency often affect another, thereby leading to interagency conflicts that can only be resolved through appeal to a higher authority. That higher authority is frequently the President. The high opportunity cost of the President's time requires that mechanisms be developed to avoid such conflicts. The mechanism adopted by the military government was to create two super-ministries (Finance and Interior) with the power to decide interministerial issues. Democratic governments often adopt less hierarchical

mechanisms, and Chile has opted for Inter-Ministerial Committees (IMCs), established by Presidential decree on May 15, 1990, and coordinated overall by the Division of Interministerial Coordination of the Secretariat of the Presidency.

79. Organization of the IMCs. The five ministerial level IMCs (Policy, Economic, Socio-Economic, Infrastructure, and Productive Sector) established in Chile complement at least thirty-two other interagency committees, including the IMC on the Environment, the latter of which will be strengthened under a proposed Bank institutional development loan for the environment now under preparation. Most other interagency committees in the Government have participation below the ministerial level.

80. Each of the five IMCs is comprised of 10-12 permanent members, including several ministers. Each IMC has a presiding minister and an executive secretary appointed by that minister; the respective executive secretary and the technical secretary of the Division of Interministerial Coordination (DIMC) also attend all meetings. Currently, the IMCs have no permanent staff support. The presiding ministers for the five IMCs are: Policy (Minister of Interior), Economic (Minister of Finance), Socio-Economic (Minister of Finance), Infrastructure (Minister of Public Works), and Productive Sector (Minister of Economy). Membership on the IMCs is as follows: Policy (Ministers of Interior, Foreign Relations, Defense, Justice, Secretary General of the Government, and Secretariat of the Presidency); Economic (Ministers of Finance, Planning, Economy, Labor, and Director of the Budget); Socio-Economic (Ministers of Finance, Labor, Planning, Education, Health, Housing and Urbanism); Infrastructure (Ministers of Public Works, Planning, Transportation, Housing and Urbanism, and National Assets, and President of National Energy Commission, and Vice-President of CORFO); Productive Sector (Ministers of Economy, Agriculture, and Mining, and Vice President of CORFO). The frequency of meetings varies between weekly and monthly, depending on the IMC. The wide membership of the IMCs facilitates discussion and agreement on the basis of objective facts and analyses; failure of the IMCs might lead to more personalized and political decisionmaking.

81. Problems. The IMCs are likely to fail if participants find them to be inefficient decisionmaking mechanisms that produce uninformed debate with few tangible outcomes. Periodic attendance by the President and regular attendance by ministers to date has ensured effective functioning of the Committees, but the failure to prepare adequately background documents and to follow up on decisions could jeopardize the long-run success of some IMCs.

82. To the extent possible, the IMCs depend on the staff of participating ministries to prepare information and analyses for IMC debate and decision. Some issues, however, require specialized expertise or personnel resources not available in any ministry. In this situation, the IMCs, which have no budget and no independent capacity to contract for studies, lack the information required for informed coordination and decisionmaking. The result may be incorrect decisions or failure to decide or coordinate.

83. Planned Technical Assistance (US\$0.8 million). The PPF financed administrative assistance to the IMCs to improve IMC functioning during a time of tight budgetary restrictions and to prepare proposals for studies required to inform interministerial decisionmaking. The project would finance several high priority studies required to inform Committee debates; the results of these

studies would result in improved ministerial coordination and improved government performance. The technical assistance to be provided and the responsible IMC and its lead ministry: (a) a study of Government information policy, leading to recommendations for processes and policies to ensure compatible computer systems and to avoid costly duplication (e.g., in establishing regional networks) (Policy IMC, Interior Ministry); (b) studies of poverty and efficiency in targeting social sector services on the poor, using data from the two most recent household surveys conducted by MIDEPLAN (Socioeconomic IMC, Ministry of Finance); (c) studies to modernize public sector management practices in the mining sector and to evaluate the Government's role and alternatives for providing geographic information (Productive Sectors IMC, Ministry of Economy); and (d) a study to evaluate alternative policy proposals to relax restrictions on private pension funds (FPs) investments (Economic IMC, Ministry of Finance).

84. During negotiations agreement was reached that the IMCs will provide semiannual reports to the PCU satisfactory to the Bank on indicators of physical progress and project results (see Attachment I) that the PCU will then provide to the Bank. During negotiations agreement was reached that the action plan for the IMCs outlined in Attachment II will be carried out.

V. PROJECT COORDINATING UNIT

85. A PPF Coordinating Unit (CU) was established under the Subsecretary of the Ministry of Finance, with funding under the PPF, and a full-time Project Coordinator was appointed in October 1990. Such CU is responsible for overall project supervision and coordination with participating agencies; approval of terms of reference (TORs) and bidding documents; management of consultant contracts and equipment procurement with the Contraloria; ensuring all Bank Guidelines are followed in consultant contracting and procurement; preparing semiannual and annual project reports for the Bank; and facilitating Bank supervision of the project. A Project Coordinating Unit (PCU) will be established to continue to carry out these responsibilities for the life of the project. To carry out these tasks requires a PCU head experienced in project management; long-run consultants to monitor project activities; and short-run consultants for specialized purposes, including development of bidding documents.

86. Planned Technical Assistance to the Project Coordinating Unit (US\$0.3 million). Since (i) coordination of PSM II is not a regular staff function in the Ministry of Finance and (ii) adequate coordination and supervision of the project is essential to its success, financing for the PCU (chief, short-run and long-run consultants, office equipment) will be shared by the Government and the Bank. Total PCU costs are expected to be larger in the first and second years of the project than in succeeding years, and the proposed funding varies accordingly.

SECTION B. PROJECT ADMINISTRATION AND IMPLEMENTATION

87. Project Organization and Implementation. The loan would be managed by the Subsecretary of the Ministry of Finance, who would serve as Project Director and be advised by the Subsecretaries of the Secretariat of the President and the Ministry of Economy in those areas relevant to those two ministries

(technical assistance to the IMCs and the Ministry of Economy, respectively). A Project Coordinating Unit (PCU) reporting to the Subsecretary of Finance will be established to oversee project implementation. The PCU will be staffed by a full-time Project Coordinator with the support of short-run and long-run consultants. The PCU will have responsibility for overseeing all aspects of the project. The PCU will be responsible for contracting, in consultation with counterparts in the implementing agencies, consultants and studies and equipment purchases provided to the Ministries of Finance, Economy, Labor, and Interior and the Interministerial Committees under the project as well as ensuring that contracting by the Congress Coordinating Unit (CCU) of consultants and studies and equipment purchases for the Congress follow Bank guidelines. The PCU will be responsible for arranging all disbursements through the Ministry of Finance; all contracting will follow Bank Guidelines. The PCU will be responsible for clearing all terms of reference, bidding documents, and consultant selections with the Bank and will be directly responsible for supervising the implementation of the Financial Management, Economic Policy Formulation and Analysis, and Policy Coordination and Government Organization components. The CCU will be responsible for maintaining the accounts and supervising the implementation of the Legislative Information and Analysis for Economic Policy component. The PCU will maintain project accounts and arrange for their annual audit in accordance with Bank guidelines, prepare an annual work program, prepare a semiannual progress report incorporating work programs and reports from all PSM II implementing agencies, and prepare all documentation required for midterm reviews of the project to occur by December 31, 1993, and December 31, 1995. Progress reports, including documentation for midterm reviews, would indicate the degree of success each project component has made in attaining measures of physical progress and agency performance.

88. During negotiations, agreement was reached that: (i) the PCU will provide semiannual reports to the Bank on indicators of physical progress and project impacts satisfactory to the Bank (see Attachment I); (ii) the action plans stated in Attachment II for participating agencies will be carried out; and (iii) for the purposes of monitoring and evaluating overall performance of the program, the Government would collect data and furnish measurements of agency-level performance indicators (outlined in Attachment III) commencing July 1, 1992, and every six months thereafter for the life of the project. A condition of project effectiveness is the establishment of a PCU in form and substance satisfactory to the Bank.

89. Procurement. The goods and services to be financed under the project would be procured in accordance with procedures consistent with Bank guidelines for procurement. Procurement arrangements are summarized in Schedule B of the Memorandum of the President. Purchases of equipment, supplies, and maintenance items the equivalent of US\$25,000 or less up to a maximum of US\$500,000 and bibliographic collections for the Congress component would be made through shopping under procedures acceptable to the Bank; above US\$25,000 but less than US\$250,000 up to a maximum of US\$6,100,000 they would be made through Local Competitive Bidding (LCB) procedures satisfactory to the Bank; above US\$250,000 they would be made through International Competitive Bidding (ICB). All ICB and the first two LCB contracts would be subject prior review by the Bank. Most of the equipment to be purchased is computer hardware and software; a small portion would be used for other office equipment. In the evaluation of all contracts for goods procured under ICB procedures, local suppliers would be granted a margin of preference in accordance with Bank procurement guidelines (as stated in Appendix 2 of the May 1985 Bank Guidelines). All procurement will be coordinated

through the PCU with the project participating/beneficiary entities responsible for preparing bidding documents and participating in bid evaluations.

90. Consultant services would be procured in accordance with Bank Guidelines. To reduce delays in contracting with consultants, the Government has issued a Presidential decree delegating to the Subsecretary of Finance the signing of World Bank financed consultant and consultant firm contracts of less than 90 days with expenditures less than US\$4,500 per month.

91. Disbursements and Refinancing. The loan will refinance a PPF granted August 1990 in the amount of US\$376,000 for expenditures incurred under the PPF prior to loan signing, expected by October 1991. This amount is to finance project preparation and initial implementation activities and the start of PCU activities. The proceeds of the loan would be disbursed against: 100% of expenditures for foreign and local consultants, training, foreign expenditures on equipment, ex-factory local expenditures on equipment; and 78% of expenditures on locally purchased imported equipment. The salary of the coordinator of the Congress component will be financed on a declining basis consisting of 100% of expenditures until December 31, 1992; 50% of expenditures until December 31, 1993; and 25% of expenditures until December 31, 1994. A condition of disbursement for the Internal Revenue Service and Customs components is the appointment of subproject component coordinators satisfactory to the Bank. A condition of disbursement for the Ministry of Finance component is the appointment of key staff in the International Studies Unit and the Macroeconomic Studies Unit. Conditions of disbursement for the Congress component are the appointment of a subproject component coordinator satisfactory to the Bank and an agreement between the Ministry of Finance and the Congress setting forth their respective responsibilities in this project component under terms satisfactory to the Bank. Except for contracts requiring prior review, disbursement would be made against statements of expenditure (SOE), for which detailed documentation evidencing expenditures would be reviewed by the PCU and made available for the required audit and also for review by the Bank supervision missions. To expedite disbursements, a Special Account would be opened in the Central Bank, or in a commercial bank satisfactory to the Bank, with an initial deposit of up to US\$750,000 to cover three months of average disbursements. The project completion date is December 31, 1997, and the project closing date is June 30, 1998.

92. The Government's contribution of approximately US\$6.8 million equivalent would consist of counterpart staff, local consultants, office space, supplies, secretarial services, and vehicle operation.

93. Accounts and Audits. Separate accounts would be kept for all expenditures made under the project. The PCU would maintain records and accounts for all project activities excepting the Legislative Information and Analysis for Economic Policy component, for which the CCU would maintain records and accounts. The project accounts and SOEs would be audited each year by auditors acceptable to the Bank in accordance with the Bank's Auditing Guidelines. The audit reports would be submitted to the Bank no later than six months after the close of the financial year.

MATRIX OF KEY PROJECT ACTIVITIES

GENERAL/SPECIFIC OBJECTIVE	PROJECT COMPONENT/ ACTIVITY	PHYSICAL INDICATORS	EXPECTED OUTPUT/IMPACT	IMPLEMENTATION SCHEDULE		PROJECT COST (US\$1000)	BANK FINANCE (US\$1000)	GOVERNMENT COUNTERPART
				TATION	SCHEDULE			
A.1. Reduce tax evasion and increase income and VAT tax compliance. (Internal Revenue Service)				3465	2283			IRS Director Project Manager
a.) Develop new information systems.	i.) Redesign data bases.	Reconfigured data bases, software installed, user guide to system, user training.	Reduce update time from 6 weeks to 1 day, reduce planning cycle from 4 weeks to 1.	616	580			Subdirector of Informatics Project Manager Chief Engineering & Development Div
	ii.) Expand central computer capacity.	Expand disk capacity, install communications controller, add 10 terminals.	Same as above.	1318	289			Subdirector of Informatics Chief of System Division(Supports) Chief Engineering & Development Div
	iii.) Expand capacity for data analysis.	Install new computer, software & training for advanced analysis.	Improved efficiency of agents due to reduced time to obtain information; capacity for complex cross-tabulations.	40	40			Subdirector of Informatics Chief Engineering & Development Div
	iv.) Maintenance prevention.	Install equipment to control and protect power supply variations.	Reduced down time; enhanced computer productivity.	170.5	80			Subdirector of Informatics Chief Engineering & Development Div Chief of System Division(Supports)
	v.) Modernize printing.	Install 10 printers and supporting equipment.	Eliminate data capture bottlenecks from 15 to 10 days; reduce printing demand on Treasury by 2 million documents. Data capture using bar code readers.	69	69			Specific Sub-component Manager
	vi.) Upgrade 20 workstations.	Workstations installed.	Reduced errors, increased speed in data processing.	61.5	51			Subdirector of Informatics Chief Engineering & Development Div

MATRIX OF KEY PROJECT ACTIVITIES

GENERAL-SPECIFIC OBJECTIVE	PROJECT COMPONENT/ ACTIVITY	PHYSICAL INDICATORS	EXPECTED OUTPUT/IMPACT	IMPLEMENTATION SCHEDULE	PROJECT COST (US\$1000)	BANK FINANCE (US\$1000)	GOVERNMENT COUNTERPART
b.) Expand system coverage.	i.) Extend national data transmission network.	Install 30 microcomputers, 110 terminals & printers, and 1 communications controller.	Remote data entry; immediate access to tax information by all(50) including 25 newly connected regional offices. Interservice potential connections.	October 1991 - January 1993	532	526	Subdirector of Informatics Project Manager Chief Engineering & Development Div
c.) Automate administrative tasks.	i.) Study of administrative procedures.	Complete study with proposals for software & training.	Increased operational efficiency.	October 1991 - March 1992	50	55	Subdirector of Informatics Specific Subcomponent Manager
	ii.) Hardware & software procurement.	Install 115 microcomputers with administrative software.	50% savings on time spent by 200 auditors on administration.	October 1991 - April 1993	267	265	Subdirector of Informatics Specific Subcomponent Manager
	iii.) Computer use training.	Develop training materials and train 200 auditors in software use.	Same as above.	December 1991 - February 1993	142	138	Subdirector of Informatics Specific Subcomponent Manager
d.) Improve resource allocation in the Internal Revenue Service.	i.) Study of performance indicators.	Complete study with proposals for indicators & their use.	Improved management information on efficiency & productivity.	October 1991 - July 1992	100	100	Subdirector of Studies Project Manager(External) Specific Subcomponent Manager
	ii.) Study of tax evasion.	Complete study with proposals for reducing evasion.	Rationalization of resources to improve efficiency in reducing evasion. Improve audit targeting.	January 1992 - January 1993	35	35	Subdirector of Studies Specific Subcomponent Manager
e.) Prepare and manage project	i.) Project management	Bidding documents, terms of reference, reports, initiation to implementation problems.	Completion of a) ii. to vi.	November 1991 - August 1992	35	35	Director of IRS

MATRIX OF KEY PROJECT ACTIVITIES

GENERAL/SPECIFIC OBJECTIVE	PROJECT COMPONENT/ ACTIVITY	PHYSICAL INDICATORS	EXPECTED OUTPUT/IMPACT	IMPLEMENTATION SCHEDULE	PROJECT COST (US\$1000)	NAME FUNDING (US\$1000)	GOVERNMENT COUNTERPART
A.2. Reduce errors in collection of customs duties and reduce fraud in allocation of export subventions. (Customs)					1976	1668	Director, Customs Service
a.) Improve information and communications systems.	i.) Expand central computing capacity.	Install new central computer and communication systems, expand existing computer capacity. Development of software. Training	Minimum data response reduced from 90 seconds to 3 seconds; historical, transactional and technical information on-line.	October 1991 - March 1992	690	690	Project Administrator and Chief, Informatics Department
	ii.) Provide local computing capacity.	Install 3 LANs, standard software, connect to central computer, & train 30 users.	50% of technical inquiries resolved locally. One application locally developed per year.	October 1991 - June 1992	60	60	Project Administrator and Chief, Informatics Department
	iii.) Establish information bases to facilitate enforcement.	Create operational data base, technical data base, and access to data bases of other agencies (BIS, Central Bank, Treasury). Training.	10% increase in number of audits; 5% increase in collection. 100% usage of information by other entities.	January 1992 - March 1993	450	269	Head, Modernization Committee and Project Administrator
	iv.) Establish mechanisms for consulting and exchanging information with internal and external users.	Develop software to improve quality and timeliness of information for operations, management and statistical analysis.	Response time to information demand by users decreases from 45 to 10 days.	March 1992 - March 1993	195	145	Head, Modernization Committee and Project Administrator

MATRIX OF KEY PROJECT ACTIVITIES

GENERAL/SPECIFIC OBJECTIVE	PROJECT COMPONENT/ ACTIVITY	PHYSICAL INDICATORS	EXPECTED OUTPUT/IMPACT	IMPLEMENTATION SCHEDULE	PROJECT COST (US\$1000)	BANK FINANCE (US\$1000)	GOVERNMENT COUNTERPART
b.) Improve skills of present and new customs agents	i.) Course design & preparation of course materials. Selection of instructor.	Course materials.	Specification of curricula and required equipment. Appointed instructors (20).	October 1991 - November 1991	15	6	Chief, Computer Department Chief, Personnel Department
	ii.) Procurement of training equipment.	Install equipment in classrooms.	Enhanced training effectiveness.	October 1991 - December 1991	71	69	Chief, Computer Department Chief, Personnel Department
	iii.) Training and evaluation.	60 hours of instruction to 50 new inspectors; 240 hours of instruction to 200 existing inspectors	Improved knowledge and productivity of customs agents	February 1992 - December 1993	43	0	Chief, Computer Department Chief, Personnel Department
c.) Reduce fraud in customs classifications.	i.) Procurement of equipment for laboratory.	Install equipment in laboratory.	Reduced classification errors and reduced audit time. Adopt (partially) the Harmonized Classification System.	October 1991 - June 1992	200	200	Chief of Operations Chief of Laboratory External Consultant
	ii.) Study of management information systems.	Written study with design of information systems and performance indicators.	Decision on hardware & software requirements & agreement on indicators. Increase of management capacity. Increase of Customs average productivity.	January 1992 - March 1992	110	92	Chief, Customs Supervision External Consultant Project Administrator
d.) Improve resource allocation and efficiency in Customs.	ii.) Modernize telephone communications	Functioning system.	Decrease in waiting time for telephone communications of Customs clients and employees.	October 1991 - March 1992	80	71	Chief of Operations
	ii.) Project management	Blanking documents, TORs, Reports	Project completion	October 1991 - March 1993	60	60	
e.) Prepare and manage component							

MATRIX OF KEY PROJECT ACTIVITIES

GENERAL/SPECIFIC OBJECTIVE	PROJECT COMPONENT/ ACTIVITY	PHYSICAL INDICATORS	EXPECTED OUTPUT/IMPACT	IMPLEMENTATION SCHEDULE	PROJECT COST (US\$1000)	BANK FINANCE (US\$1000)	GOVERNMENT COUNTERPART
A.3. Improve efficiency and effectiveness of tax and bill collections. (General Treasury)							General Treasurer External Consultant
a.) Reduce tax liability errors.	1.) Moderate computer capacity of Regional Treasuries.	Install 29 minicomputers & software & train 150 users.	Decreased demand on central computer; regional access to information on tax liability & payments.	October 1991 - September 1992	1104	708	Subdirector of Studies Chief Informatic Studies Division
b.) Increase quality and timeliness of tax data.	1.) Evaluate alternatives used in other countries. 2.) Hardware & software procurement & training.	Written evaluation & proposal. Install optical readers & bar code readers & train users.	Bidding documents for data processing equipment. Entry of tax data reduced from 6 weeks to 1 week.	October 1991 - September 1991	24	20	Subdirector of Studies Chief of Computer Operation Div.
c.) Improve control of Treasury check issuance.	1.) Procurement of check writing & control equipment.	Install equipment.	Reduction in check fraud and errors.	October 1991 - April 1992	170	170	Subdirector of Studies Subdirector of Administration
d.) Improve resource allocation in the General Treasury.	1.) Study of management information and performance indicators. 2.) Purchase of hardware & development of software.	Completed study & proposals. Functioning information system.	Decision on design of information system. Reallocation of resources for improved efficiency.	October 1991 - May 1992	46	42	Subdirector of Studies Subdirector of Operations
				February 1992 December 1992	124	120	Subdirector of Studies Chief Informatic Studies Division

MATRIX OF KEY PROJECT ACTIVITIES

GENERAL/SPECIFIC OBJECTIVE	PROJECT COMPONENT/ ACTIVITY	PHYSICAL INDICATORS	EXPECTED OUTPUT/IMPACT	IMPLEMENTATION SCHEDULE	PROJECT COST (US\$1000)	BANK FINANCE (US\$1000)	GOVERNMENT COUNTERPART
A.4. Improve administrative performance of the Social Security Institute (INP).							
a.) Increase social security tax collections.	i.) Diagnostic study of collection processing, audit & control mechanisms. ii.) Software design, hardware procurement, and implementation of the system.	5 reports giving design for enforcement and collection. Operating system with 15 trained agents.	Decisions to implement design. Reduction in evasion and increase in revenues.	January 1992 - May 1993 October 1992 - June 1994	365 335 530 504	3345 2036	Director, INP Director of INP Chief Collection Division Chief Employees Control Office Director of INP Chief Collection Division Chief Employees Control Office
b.) Improve administration of pension benefits.	i.) Inventory of laws and regulations affecting pensions ii.) Design and implement process automation, management computerization and cost of mechanisms	Manuals of rules for each pension plan. Administrative & user manuals, functioning information system, trained users.	75% reduction in process errors; 50% reduction in legal grievances. 40% reduction in processing time with fewer errors.	October 1991 - June 1992 January 1992 - October 1994	232 891	0 842	Director of INP Chief Legal Department Director of INP Chief Operations Department
	iii.) Clean and organize data on individual accounts.	On-line access to reliable data.	Reduce response time to taxpayer from 60 to 20 days with fewer errors.	October 1991 - December 1992	769	0	Chief Individual Accounts Dept.
	iv.) Clean and organize data on current beneficiaries.	Magnetic tape of complete and reliable historical data.	Reduction in fraudulent payments.	October 1991 - December 1992	181	0	Chief Benefits Payments Division
	v.) Improve access to historical information	Functioning on-line system with manuals and 21 trained operators.	Reduce response time to 48 hours. Reduce unassessed requests.	January 1992 - May 1993	377	355	Chief Financial Department Chief Operations Department

MATRIX OF KEY PROJECT ACTIVITIES

GENERAL/SPECIFIC OBJECTIVE	PROJECT COMPONENT/ ACTIVITY	PHYSICAL INDICATORS	EXPECTED OUTPUT/IMPACT	IMPLEMENTATION SCHEDULE	PROJECT COST (US\$1000)	BANK FINANCE (US\$1000)	GOVERNMENT COUNTERPART
B.1. Improve legislative information and reference services.							
a.) Prepare bid documents and implement project.	i.) Prepare bid documents for library and communications system. ii.) Implement project.	Bid documents. Project reports, including use of the system.	Procurement of materials & equipment. Project maintains time schedule for implementation.	October 1991 - June 1992 January 1992 - December 1996	90 747	90 158	Congress Coordinator Congress Coordinator
b.) Increase Library capacity to respond to requests.	i.) Study of Library organization and management. ii.) Expand reference collection. iii.) Computerize reference holdings. iv.) Develop legislative data base. v.) Develop statistical data base. vi.) Develop journal data base.	Completed study. Increase library volumes, journals, CD-ROM data bases. Hardware & software installed, librarians trained. On-line access to laws and bills. On-line access to economic and other data. On-line access to journal articles.	Reorganization of Library to improve productivity. Increased quality & quantity of information available. Improved response time to users. Better informed analysis, improved bill drafting. Better informed legislative analysis. Better informed legislative analysis.	October 1991 - March 1992 January 1992 - December 1995 January 1992 - December 1994 July 1992 - December 1994 January 1992 - December 1994 March 1992 - December 1994	70 1006 684 816 46 473	70 526 592 726 27 363	Director, Library of Congress Director, Library of Congress

MATRIX OF KEY PROJECT ACTIVITIES

GENERAL/SPECIFIC OBJECTIVE	PROJECT COMPONENT/ ACTIVITY	PHYSICAL INDICATORS	EXPECTED OUTPUT/IMPACT	IMPLEMENTATION SCHEDULE	PROJECT COST (US\$(1000))	BANK FINANCE (US\$(1000))	GOVERNMENT COUNTERPART
	vii.) Mainframe computer peripherals.	Peripherals installed.	Improved response time to users.	March 1992 - December 1993	1191	458	Congressional Coordinator
	viii.) Training in legislative analysis, especially fiscal and economic analysis.	Library staff trained in preparing analysis on policy issues.	Improved quality of analyses provided to Library users.	January 1992 - December 1993	46	46	Director, Library of Congress
					2278	7242	
B.2. Facilitate and improve use of the system. (Congress)							
a.) Improve Library-Congress communications.	i.) Modernize communications between the Library and Congressional users.	Install communication lines between Santiago & Valparaiso, gateways, and controllers.	Increase speed and volume of communications.	March 1992 - December 1993	754	754	Congressional Coordinator
	ii.) Connect Congressional staff to communication system.	Install cables, controllers, & terminals.	100% increase in Library use relative to 1991 base.	March 1992 - December 1993	804	804	Congressional Coordinator
	iii.) Design study of the Information Unit.	Completed study.	Information Unit established and functioning.	March 1993 - December 1993	40	40	Congressional Coordinator
b.) Facilitate communication of information between Government and Congress.	i.) Connect Government offices to Congressional communication system.	On-line access by Government to Library services.	Improved policy analyses by Government, use of common data base.	March 1992 - June 1993	212	176	Chief, Communications Division, Secretariat of the Presidency
	ii.) Train users of Library services.	Legislative staff trained in information use & analysis.	Improved analytic content of reference services; use of common data base.	January 1992 - December 1993	416	416	Congressional Coordinator
	iii.) Study of organization of policy analysis in Congress.	Completed study.	Recognize provision of analysis and develop staffing/training plan.	October 1991 - March 1992	52	52	Congressional Coordinator

MATRIX OF KEY PROJECT ACTIVITIES

GENERAL/SPECIFIC OBJECTIVE	PROJECT COMPONENT/ ACTIVITY	PHYSICAL INDICATORS	EXPECTED OUTPUT/IMPACT	IMPLEMENTATION SCHEDULE	PROJECT COST (US\$1000)	BANK FINANCE (US\$1000)	GOVERNMENT COUNTERPART
C.1. Improve economic policy analyses in the Ministry of Finance.					2127	902	
a.) Improve international economic analysis.	i.) Develop analytic capacity on trade issues.	Ministry staff trained, computers & data bases installed.	Improved policy analysis of trade and finance issues.	January 1992 - December 1993	922	316	Chief, International Studies Unit
	ii.) Provide analysis of commercial market opening.	Completed reports on study's three components.	Informed choice of policy options by Minister of Finance.	January 1992 - June 1993	102	102	
b.) Improve macroeconomic analysis.	i.) Increase macroeconomic analytic capacity.	Ministry staff trained, computers & data bases installed.	Improved policy analysis and economic forecasts.	January 1992 - December 1993	1003	364	Chief, Macroeconomic Studies Unit
	ii.) Provide analysis of opening of capital account.	Completed reports on study's three components.	Informed choice of policy options by Minister of Finance.	January 1992 - December 1992	100	100	
C.2. Improve implementation of policies and programs under the purview of the Ministry of Economy.					1208.5	1111	
a.) Improve implementation of internal monopoly regulation.	i.) Studies of implementation and management problems in regulatory agencies.	Completed studies & consultants' reports.	Reorganization of institutions to improve management.	January 1992 - December 1994	805	742	Subsecretary of Economy in collaboration with the Head of the Agency being studied.
b.) Implement FPM I recommendations on strengthening consumer enforcement.	i.) Consultant to Fiscalía on market research.	Documentation on analytic procedures; research program for Fiscalía.	Improved selection of enforcement activities by Fiscalía, reflected in revised case resolution times from current 1 year average.	January 1992 - December 1994	164	139	Subsecretary of Economy in collaboration with the Director of Fiscalía.
c.) Improve performance of the Consumer Protection Agency (CPA).	i.) Study of management problems of the CPA.	Study of international experience & consumer information system.	Reorganization of CPA & establishment of consumer information system.	January 1992 - December 1993	239.5	230	Subsecretary of Economy in collaboration with Director of CPA.

MATRIX OF KEY PROJECT ACTIVITIES

GENERAL/SPECIFIC OBJECTIVE	PROJECT COMPONENT/ ACTIVITY	PHYSICAL INDICATORS	EXPECTED OUTPUT/IMPACT	IMPLEMENTATION SCHEDULE	PROJECT COST (US\$1000)	BANK FINANCE (US\$1000)	GOVERNMENT COUNTERPART
D.1. Improve interministerial policy coordination and government organization.					764	764	
a.) Improve effectiveness of Policy IMC. (Inspector Ministry)	i.) Studies of general government organization.	Completed study of government computer and information policy.	Discussion of recommendations by IMC with report of actions taken.	June 1992 - December 1993	200	200	Executive Secretary of the Political IMC in collaboration with the Subsecretary of Regional Development, Ministry of Inspector.
b.) Improve effectiveness of Socioeconomic IMC. (Ministry of Finance)	i.) Studies of interministerial issues in social sector.	Completed studies of social program targeting & poverty.	Discussion of recommendations by IMC with report of actions taken; interministerial seminars on death reports.	January 1992 - December 1993	335	335	Executive Secretary of the Socioeconomic IMC in collaboration with MIDEPLAN.
d.) Improve effectiveness of Productive Sectors IMC. (Ministry of Economy)	i.) Studies of interministerial issues in the productive sector.	Completed studies of mining sector public enterprise management and government role in geographic information.	Institute performance contracts, a monitoring office, & arbitrating mechanism; develop efficient investment program for geographic information.	January 1992 - December 1993	179	179	Executive Secretary of the Productive Sectors IMC in collaboration with the Subsecretary of Mining.
e.) Improve effectiveness of Macroeconomic IMC. (Ministry of Finance)	i.) Studies of interministerial macroeconomic issues.	Completed study of pension fund investment policy.	Discussion of recommendations by IMC with report of actions taken.	January 1992 - December 1992	50	50	Executive Secretary of the Macroeconomic IMC.
E.1. Project Administration.					470	350	
a.) Effectively implement FSM II, following Bank Guidelines.	i.) Process contracts, prepare reports, problem solve.	Project activities and disbursements processed as scheduled in Loan documents.	Project activities according to objectives on time.	January 1992 - December 1996	470	350	Subsecretary of Finance

ACTION PLAN

<u>Agency</u>	<u>Action</u>	<u>Action to be taken by:</u>
Congress	Submit and carry out program to train Library of Congress staff in analysis of economic legislative issues.	December 31, 1993
	Increase library use by 100 percent over its 1991 base.	December 31, 1995
Ministry of Finance	Complete all studies for the International Economic and Macroeconomic Study Units.	December 31, 1993
	Establish all data bases for the International Economic and Macroeconomic Study Units.	December 31, 1994
Ministry of Economy	Complete study of management problems in the Consumer Protection Agency.	December 31, 1993
	Implement study recommendations to improve management of the Telecommunications Subsecretariat, the Electricity and Gas Superintendency, and the Consumer Protection Agency.	December 31, 1995
Interministerial Committees	Complete studies on information policy, determinants of poverty and targeting of social sector services, and pension fund investments.	December 31, 1993, December 31, 1993, December 31, 1992, respectively
	Take actions on study recommendations.	June 30, 1994, June 30, 1994, June 30, 1993, respectively.

ACTION PLAN

Agency	Action	Action to be taken by:
Internal Revenue Service	Install remote data entry capacity and complete studies of performance indicators and tax evasion.	December 31, 1993
	Reduce data base update time from 6 weeks to 1 day and realize 50 percent savings in time spent by auditors on administration.	December 31, 1995
Customs	Install local computing capacity and complete a study of the management information system.	December 31, 1993
	Resolve 50 percent of technical inquiries locally and reduce information response time to users from 45 to 10 days.	June 30, 1994
General Treasury	Complete modernization of regional treasuries and complete study of management information and performance indicators.	December 31, 1993
	Reduce entry time for tax data from 6 weeks to 1 week.	December 31, 1994
Social Security Institute	Complete diagnostic study of collection processing, auditing, and control mechanisms and clean and organize data on current beneficiaries.	December 31, 1993
	Reduce by 75 percent errors in pension processing and reduce from 60 to 20 days response time to inquiries on individual accounts.	December 31, 1994

AGENCY PERFORMANCE INDICATORS

<u>General Objective</u>	<u>Performance Indicator</u>
A.1. Reduce tax evasion and increase income and VAT tax compliance (Internal Revenue Service)	Evasion detected and collected as a percentage of total tax collections.
A.2. Reduce evasion in collection of custom duties and reduce fraud in allocation of export subsidies (Customs)	Reassessment of Import duties as percent of value of total Imports. Reassessment of export subsidies as percent of value of total export subsidies.
A.3. Improve efficiency and effectiveness of tax and bill collections (General Treasury)	Recovery of tax arrears as percent of total arrears.
A.4. Improve administrative performance of the Social Security Institute.	Tax evasion detected and tracked as a percentage of total tax collections. Number of errors, unit costs, and elapsed time in processing pension applications.
B.1. Improve legislative information and reference services and facilitate and improve use of the Congressional Information system (Library of Congress)	Number of requests for information and analysis from the Library of Congress. Amount of staff time to retrieve information required for legislative analysis.
C.2. Improve implementation of policies and programs under the purview of the Ministry of Economy.	Degree of substantive reorganization of regulatory agencies.

CHILE
PUBLIC SECTOR MANAGEMENT TECHNICAL ASSISTANCE PROJECT
LOAN 2506 - CN

STATUS OF STUDIES

Activity	Starting & Completion Dates	Cost (US\$ '000s)	Purpose as defined at Appraisal	Status	Description of Project Results	Project Impact/Sustainability
A. Activities Agreed at the time of Loan Effectiveness:						
1. IANSA Study	February 1986 August 1986	US\$ 39.8	Analyzing cost of production and improvements required in each of the five IANSA plants	Completed	Study recommended several measures for improving operational performance of IANSA plants, including privatization.	IANSA privatized two years after completion of the study.
2. Study on Exports	November 1986 February 1987	US\$ 237.5	Survey of small and medium enterprises to enable PROCINLE to identify and recommend products and sectors with export potential for development.	Completed	Development of a data base on potential exports by small and medium enterprises.	<ul style="list-style-type: none"> - Adoption of recommendations has resulted in an increase in export-revenue in small and medium enterprises. - Data base developed is being regularly updated.
3. Social Pricing Study	April 1986 May 1987	US\$ 110.0	Improving resource allocation and investment by developing a realistic base for calculating social pricing.	Completed	Development of a new social pricing structure by identifying relevant social costs and a methodology for their calculation.	New social pricing structure is currently used by NIDEPLAN for evaluating social impact of public investment projects
4. National Accounts Study	November 1986 October 1989	US\$ 502.0	Improving the methodology and updating data required for calculating national accounts, including computation of the GNP.	Completed	Data of the study used by the Central Bank for producing a consistent series of national income statistics for 1986-1989.	<ul style="list-style-type: none"> - Completion of a study on the investment sector. - Proposed updating of the methodology for calculating quarterly prices. - financing by Japanese grant for flow-of-funds study to upgrade national accounts to meet UN guidelines
B. Activities Included Subsequent to Loan Effectiveness:						
1. Special Employment Program Study	June 1987 January 1989	US\$ 280	Analyzing the efficiency of existing employment programs in terms of their objectives and coverage and recommending solutions for problems detected in this regard.	Completed	Recommendations for program changes, including phasing out of special employment programs.	Government's special employment programs have been phased out.

CHILE
PUBLIC SECTOR MANAGEMENT TECHNICAL ASSISTANCE PROJECT
LOAN 2504 -CH

STATUS OF STUDIES

Activities	Starting & Compltn. Dates	Cost (US\$ '000s)	Purpose as defined at Appraisal	Status	Description of Project Results	Project Impact/ Sustainability
6. Income and Expenditure Household Survey	November 1987 August 1989	US\$ 871.5	Analyzing national income and expenditure distribution for developing a new market basket and weights for the CPI.	Completed	Replacement of the 1978 market basket with a new one which includes information on spending, income and living conditions for 6500 households.	The new CPI Index, starting April 1989, uses spending weights of the new basket.
7. CASEN II Survey	August 1988 March 1990	US\$ 200.0	Improving targetting of government programs by conducting analysis of the distribution of various government social expenditure programs and studying the effect on family incomes.	Completed	- Household Survey (1987) completed and distributed. - Targeting analysis report prepared by University of Chile.	- Survey data being used by MIDEPLAN and independent researchers to further study targetting issues. - Survey results used in World Bank poverty study and by MIDEPLAN regional offices for investment planning purposes. - Follow-up survey (CASEN III) planned for 1991.
8. PROCHILE Salmon Marketing Study	February 1988 November 1988	US\$ 178.6	Improving packaging and quality control of salmon for export markets.	Completed	Improved product image resulting in an export growth by nearly seven times since completion of study. Additional revenue outturn from exports expected during 1990 close to US\$75 million. Market share for fresh salmon increased to 20% of the total market in the US and to 100% in Japan.	Financing for the US advertising campaign is being continued with the Salmon Growers Association funds after termination of IAL financing.
9. Environmental Impact of Electric Projects Manual	August 1988 August 1989	US\$ 101.2	Developing a standard environmental impact report defining areas to be analyzed in the construction of future power plants in Chile.	Completed	Comprehensive manual developed and widely disseminated.	- formation of an Environmental Commission (COMARA) in the Ministry of Public Works in April 1989. - Translation of proposed norms to formal Government instructions currently under review by COMARA.
10. Small and Medium Power Private Evaluation Manual	September 1988 August 1989	US\$ 229.0	Developing a standard manual for evaluating proposed small and medium hydropower plants by private entrepreneurs.	Completed	Manual developed and widely disseminated to regional authorities, enterprises and universities.	Several small and medium hydroelectric power plants currently being evaluated using methodology proposed in the manual, for example, EDELNOB.
11. Illicit Use of Energy Study	November 1988 October 1989	US\$ 166.7	Analyzing electricity consumption between high and low-income	Completed	Study recommendation to control the illicit use of	Electric energy pricing policies under Government review.

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CHILE
PUBLIC SECTOR MANAGEMENT TECHNICAL ASSISTANCE PROJECT
LOAN 2504 -CH

STATUS OF STUDIES

Activities	Starting & Compltn. Dates	Cost (US\$ '000s)	Purpose as defined at Appraisal	Status	Description of Project Results	Project Impact/ Sustainability
			households and recommending measures for controlling illicit use of energy.		energy by providing subsidies to low consumption households.	
12. METRO Reorganization	September 1988 October 1990	US\$ 484.6	Developing an operational and financial control system required to manage METRO as a private enterprise.	Completed	Development of a MIS system to facilitate METRO's operation as an independent enterprise completed with IAL-financing.	<ul style="list-style-type: none"> - METRO-financed study for evaluating the feasibility of implementing recommendations completed by the University of Chile. - Financing of computer equipment and external consultants by METRO to the amount of US\$500,000. - Training of METRO staff in the use of the new system.
13. Computer training for MINVU staff	August 1988 March 1990	US\$ 126.7	Training MINVU staff to manage the computerized data base on mortgages and beneficiaries of housing programs.	Completed	Training of MINVU staff completed in the thirteen regions. Terminals in the regional offices are being used, on an average, for 12 hours per day.	<ul style="list-style-type: none"> - Ministry workload reported to have increased without increase in numbers employed. - Trained staff are conducting training programs for remaining staff.
14a. INDAP Portfolio System	August 1988 December 1989	US\$ 99.9	Strengthening INDAP's computerized portfolio management of agricultural credit and developing new financial and managerial reporting systems for INDAP.	Completed	Integrated on-line credit information system implemented in regions.	<ul style="list-style-type: none"> - Improvements in timeliness and quality of management information. - System being expanded to cover all regions. - Government has requested the Bank for financing a project on facilitating technology transfer in the regions.
14b. Training for INDAP Portfolio System	June 1989 January 1990	US\$ 32.1	Assessing computer capacity, identifying training needs and conducting staff training in the use and maintenance of the new system at the regional offices.	Completed	Total of 6 staff trained in various regional offices.	Trained staff are currently conducting programs for training other staff in the regions.
15. PROCHILE Network	May 1988 December 1989	US\$ 234.6	Strengthening PROCHILE data base and international computer connections.	Completed	PROCHILE network installed in 9 countries.	<ul style="list-style-type: none"> - Significant improvements in timeliness and quality of export information. - Network is being expanded to cover more countries.

CHILE
PUBLIC SECTOR MANAGEMENT TECHNICAL ASSISTANCE PROJECT
LOAN 2504 -CH

STATUS OF STUDIES

Activities	Starting & Compltr. Dates	Cost (US\$ '000s)	Purpose as defined at * Appraisal	Status	Description of Project Results	Project Impact/ Sustainability
16. Study on Optimization of Telecommunication Norms	January 1989 November 1989	US\$ 615.0	Reviewing technical norms and proposing new regulations required for protecting residential/commercial users, meeting international and computer-link requirements and improving export potential for Chilean manufacturers.	Completed	Development of evaluation methodology for environmental impact of telecommunication norms.	Recommendations for increasing flexibility of telecom norms and strengthening Telecom Secretariat being financed under the proposed PSM II.
17. Valparaiso Urban Transport Model Study	October 1988 Incomplete	US\$ 550.5	Development of a data base and adoption of the Santiago transportation model for Valparaiso leading to a planning model and policy recommendations.	Incomplete	Data base and methodology developed but not implemented. Bank financing for the study was suspended since it could not be completed before the loan closing date.	ESTRAVAL awaiting financing from other agencies, including the Government, to complete study in 1991.
18. Concepcion Origin and Destination Study	December 1988 April 1990	US\$ 303.9	Data collection through surveys, census and transit flows in critical points in the transportation network for planning urban transport investments in the Concepcion region.	Completed	Data of the study used for developing model of the Concepcion urban transport system.	Model being applied in Region VIIIa. for improving transport investment planning.
19. Port Tariff Study	July 1988 December 1988	US\$ 75.0	Reviewing port tariff policies to improve port utilization and to guide future port investments.	Completed	Study developed a pricing methodology and a differential tariff policy to encourage more efficient use of port capacity.	The Government has requested Bank financing to implement study recommendations.
20. Public Enterprise Database	November 1988 July 1989	US\$ 87.5	Designing and implementing an in-house data base and management information system for public enterprises and reviewing and analyzing information required for developing key indicators for monitoring public enterprise.	Completed	Design of the data base completed. However, implementation of the MIS system in NINECON suspended due to large-scale privatization and shift in monitoring enterprises to CORFO.	None
21. Fiscalia Study	March 1989 October 1990	US\$ 179.2	Strengthening Fiscalia's ability to investigate and prosecute anticompetitive practices through	Completed	- Completion of study and implementation of recommendation for reorganizing Fiscalia's	- Financing of a consultant to continue implementation of remaining recommendations to be

CHILE
PUBLIC SECTOR MANAGEMENT TECHNICAL ASSISTANCE PROJECT
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STATUS OF STUDIES

Activities	Starting & Compltn. Dates	Cost (US\$ '000s)	Purpose as defined at Appraisal	Status	Description of Project Results	Project Impact/ Sustainability
			Improvements in organization, information systems and training.		functions. - Computerization of information systems resulting in increased capacity and reduction in time for data processing user requests.	provided under the proposed PSM II project. - Proposal for retraining Fiacelle staff to increase their functional capacity for analyzing anticompetitive practices in different markets.
22. Contraloria - Civil Service Registry Data Base	December 1988 April 1990	US\$ 66.7	Developing a personnel data management system for the public sector based on a survey of user needs.	Completed	- Development of a comprehensive data base covering 240,000 active civil service personnel in place of a manual register. - Reduction in time taken for processing user requests on personnel. - Flexibility in adapting statistical information to user requests. - Sizeable increase in Contraloria's capacity to provide detailed data on civil service personnel to decision makers.	- System established under the project is being updated regularly. - Organic Law of Contraloria is being modified to legally permit distribution of information on civil service personnel to decision makers. - Plans are in progress to extend system to all the twelve regional offices.
23. Contraloria - Regional Network	September 1988 March 1990	US\$ 360.2	Developing databases on legislation, public accounting and personnel and linking these electronically with Regional Contraloria offices.	Completed	- Establishment of a computerized data base which permits quicker access of legal data bases by Contraloria's twelve regional offices. - Reduction in time taken by Contraloria to furnish information on laws and directives to its regional offices from 15 days to 1 hour. - Improvements in Contraloria's capacity to clear public contracts.	- Establishment of regional network will permit data to be accessed by Congress for decision-making. - Legal data base is being regularly updated upon issuance of new laws and regulations.
24. SENDOS Reorganization	September 1988 May 1990	US\$ 762.2	Developing information systems and administrative structures for reorganizing SENDOS into regional corporations (including training of regional staff to function under the new structure).	Completed	- Law granting corporate status (S.A) to the eleven regional offices of SENDOS passed in February 1990. - Information systems developed and recommendations made for improving organization structure	- Proposed structures under implementation in Regions IV, VI, VII, X and XI.

CHILE
PUBLIC SECTOR MANAGEMENT TECHNICAL ASSISTANCE PROJECT
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STATUS OF STUDIES

Activities	Starting & Completion Dates	Cost (US\$ '000s)	Purpose as defined at Appraisal	Status	Description of Project Results	Project Impact/Sustainability
					of regional corporations.	
25. Review of Electrical Appliances Norms Study	November 1988 September 1989	US\$ 275.6	Reviewing existing norms and proposing new regulations and implementation mechanisms focussed on consumer protection and improved export potential for Chilean manufacturers.	Completed	- Study results disseminated to affected businesses.	- Legislation for reorganizing functions of Subsecretariat of Combustibles responsible for implementing study recommendations under Government review.
26. Fisheries Model	June 1989 October 1990	US\$ 216.9	Constructing and implementing a biological-economic model of fisheries stock and exploitation.	Completed	Development of the model completed.	- Newly developed model being further refined for optimum exploitation of fisheries resources. - Personnel trained in economy for on-going application and refinements in the model.

