

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CHILE

INDIGENOUS DEVELOPMENT AND PROMOTION PROGRAM

(CH-L1105)

LOAN PROPOSAL

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ABBREVIATIONS

CAIGG	Consejo de Auditoría Interna General de Gobierno [Governmental General Internal Audit Council]
CASEN	Encuesta de Caracterización Socioeconómica Nacional [National Socioeconomic Profile Survey]
COBIN	Fondo de Coberturas de Inversiones Indígenas [Indigenous Investment Guarantee Fund]
CONADI	Corporación Nacional de Desarrollo Indígena [National Corporation for Indigenous Development]
CORFO	Corporación de Fomento de la Producción [Production Development Corporation]
CRF	Corporate Results Framework
FOGAIN	Fondo de Garantía de Inversiones [Investments Guarantee Fund]
INDAP	Instituto de Desarrollo Agropecuario [Institute for Agricultural Development]
IOA	Intermediary Operating Agent
NCRE	Non-Conventional Renewable Energy
PET	Program execution team
PORs	Program Operating Regulations
SAP	Systems Applications Products
SERCOTEC	Servicio de Cooperación Técnica [Technical Cooperation Service]
UFs	Unidades de fomento [see footnote 17]

PROJECT SUMMARY

CHILE INDIGENOUS DEVELOPMENT AND PROMOTION PROGRAM (CH-L1105)

Financial Terms and Conditions							
Borrower: Republic of Chile			Flexible Financial Facility^(a)				
			Amortization period:	15 years			
Executing agency: Corporación de Fomento de la Producción (CORFO)			Original WAL:	10.25 years			
			Disbursement period:	4 years			
Source	Amount (US\$)	%	Grace period:	5.5 years			
IDB (OC):	40 million	93.35	Inspection and supervision fee:	^(b)			
Local:	2.85 million	6.65	Interest rate:	Based on LIBOR			
			Credit fee:	^(b)			
Total:	42.85 million	100.00	Approval currency:	U.S. dollars from the Ordinary Capital (O.C.)			
Project at a Glance							
<p>Project objective/description: The program's general objective is to help increase the incomes of indigenous households in Chile by supporting business initiatives or projects proposed by indigenous organizations that are economically and socioculturally sustainable, primarily in the agriculture, forestry, non-conventional renewable energy, tourism, and aquaculture sectors. The specific objectives are to: (i) strengthen the capacities of indigenous organizations to improve the technical and sociocultural viability of their business initiatives or projects; (ii) improve access to suitable financing for sustainable indigenous business initiatives or projects; and (iii) strengthen the institutional capacities of CORFO and other public or private agencies related to the execution of indigenous productive development programs.</p>							
<p>The special contractual conditions precedent to the first disbursement of the loan will be that: (i) the Program Operating Regulations (PORs) have been approved by the Executive Vice President of CORFO, with the prior agreement of the Indigenous Affairs Unit of the Ministry of Social Development, with regard to the sociocultural protocol that is part of the PORs, in accordance with the terms and conditions previously approved by the Bank; and (ii) the program execution team (PET) has been established in CORFO and its coordinator and the person responsible for administrative matters have been hired or appointed (paragraph 3.7).</p>							
<p>Special contractual condition for execution: A special contractual execution condition precedent to the second and subsequent disbursements intended for the fund provided for under Component II of the program will be for CORFO to demonstrate that it has granted cumulative guarantees from the preceding disbursements in an amount equivalent to no less than 65% of those disbursements (paragraph 3.7).</p>							
<p>Environmental and social condition: CORFO will include in its periodic reports an analysis of the principal risks detected, including environmental and social risks; together with eligible financial intermediaries, it will monitor compliance of the project's interventions with the environmental and social regulations in effect in the country and with the requirements of the PORs (paragraph 2.2).</p>							
<p>Exceptions to Bank policies: None.</p>							
Strategic Alignment							
Challenges^(c):		SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI	<input type="checkbox"/>
Cross-cutting issues^(d):		GD	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>	IC	<input checked="" type="checkbox"/>

^(a) Under the terms of the Flexible Financing Facility (FN-655-1), the borrower has the option of requesting changes in the amortization schedule, as well as currency and interest rate conversion. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) The credit fee and the inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with relevant policies.

^(c) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(d) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and the Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problems, and rationale

- 1.1 Chile is among the countries in Latin America and the Caribbean with the highest levels of income per capita (US\$15,263) and economic growth. Between 2003 and 2012, it grew by 4.4% per year, exceeding the rate of 1.5% in the member countries of the Organisation for Economic Co-Operation and Development (OECD) and the rate of 3.9% in Latin America and the Caribbean (CEPALSTAT, 2014). However, this good performance has recently been affected by the decline in global growth and the price of raw materials, which are fundamental in Chile's exports. In addition, despite economic growth in recent decades, Chile still has high income inequality, with a Gini index of 0.50, the highest in the OECD. As for its productive structure, the Chilean economy, particularly its exports, is concentrated in commodities and products with low technology content. Furthermore, most of its companies are microenterprises and small businesses with low productivity. From a long-term perspective, the most important challenge for rebooting sustainable growth in the Chilean economy is the need to improve productivity and equity, which requires special emphasis on the most disadvantaged business segments.
- 1.2 **The indigenous population and its legal framework.** A significant portion of the Chilean population belongs to ethnic groups or indigenous peoples. They are recognized in Law 19,253 of 28 September 1993 and are primarily the following: Mapuche, Aymara, Rapa Nui, Atacameño or Lican Antay, Quechuas, Collas, Diaguita, Kawashkar, and Yagán. According to the 2013 National Socioeconomic Profile Survey (CASEN), 9.1% of Chile's population self-identifies as being of indigenous origin,¹ while that percentage was 4.4% in 1996, indicating a positive trend in cultural self-identification. The reasons for this trend include improvements in statistical measurement tools and indigenous cultural revitalization. Most of the indigenous population, or 84.4%, self-identifies as Mapuche, followed by the Aymara (7.7%), Diaguita (3.2%), Quechua (1.9%), and Atacameño peoples (1.5%). More than half of the indigenous population is concentrated in four regions: Metropolitan (29.9%), Araucanía (19.8%), Los Lagos (13.4%), and Biobío (6.8%). In addition, a sizeable portion of the indigenous population, about 26%, lives in rural areas. According to the Corporación Nacional de Desarrollo Indígena [National Corporation for Indigenous Development] (CONADI) (2014), there are 96,540 indigenous families living in rural areas, with a high concentration in the Araucanía region.
- 1.3 Since 1993, with the signing of Law 19,253, the country has been reconfiguring the legal and public policy framework for the indigenous population. That law created CONADI and launched a land and water rights fund for indigenous individuals or communities. The report of the Commission on the Historical Truth and a New Deal for the Indigenous Peoples was completed in 2003. The Commission sought to learn about indigenous people's view of Chile's history and provided recommendations for a government indigenous policy. Later, the *Re-conocer*

¹ [2013 Casen – Summary of Results](#) *Pueblos Indígenas. Síntesis de resultados*. Ministry of Social Development, Government of Chile, 15 March 2015.

Social Pact for Multiculturalism was published in 2008 and the International Labour Organization (ILO) Convention 169 Concerning Indigenous and Tribal Peoples in Independent Countries was published that same year. More recently, a proposal to create a Ministry of Indigenous Affairs and an Indigenous Council was submitted to the Congress in 2015. However, despite these important advances in the recognition of rights and in public policies, there are still development gaps between the indigenous and non-indigenous populations, particularly in rural areas and in business development.

- 1.4 **Identifying the problem.** The 2013 CASEN shows significant gaps in various economic and social indicators between the indigenous and non-indigenous populations. There is a high percentage of indigenous households living in poverty, whether income-based or multidimensional (21% versus 12.1% and 31.2 versus 19.3, respectively). In addition, illiteracy in indigenous people aged 15 and older is higher than for non-indigenous people (5% versus 3.6%), as is the unemployment rate (8.0% versus 6.9%).² These gaps are in part related to the difficulties the indigenous population faces in developing more dynamic business initiatives. Most indigenous enterprises are subsistence microenterprises³ in areas such as horticulture, grains, small-scale fishing, crafts, and tourism. These are very small scale, informal companies with limited productivity that use unskilled labor and little technology and have no foothold in the markets. For example, according to the 2007 Agricultural Census, among indigenous agricultural operations of less than 10 hectares, only 0.8% export, 1.2% sell to agribusiness, and 4.7% pay taxes, while in non-indigenous operations, these figures are 4.7%, 7.4%, and 15%, respectively.⁴ In addition, indigenous participation in dynamic initiatives or ventures is nearly nonexistent, as can be seen in the different rankings of successful companies and ventures available for Chile.⁵ The barriers identified by the project team that have a negative impact on the development of more dynamic indigenous business initiatives notably include: (i) the lack of appropriate financial instruments; (ii) limited business organization and management capacities; and (iii) the lack of government capacity and rules for implementing business promotion instruments targeting indigenous peoples.
- 1.5 **Lack of appropriate financial instruments.** The Chilean financial and development system does not meet the needs of indigenous communities' enterprises. According to the fourth microentrepreneurship survey in 2015, only 20% of Chilean microenterprises have some debt for business purposes. In addition, the lack of financing appears to be the principal constraint on business

² The report on the [Human Development Index of the Araucanía Region](#), published by Universidad de la Frontera in July 2015, contains a detailed analysis of the development gaps between the Mapuche and non-Mapuche population. The study confirms the gaps in the Mapuche population, particularly in terms of income. It also indicates that the most important challenges involve the rural population and women.

³ In Chile, according to Law 20,416, microenterprises are businesses with fewer than 10 employees and annual sales of less than 2,400 UFs (approximately US\$90,000).

⁴ 2007 Agricultural and Forestry Census, [National Statistics Institute](#).

⁵ Various company rankings and directories were consulted and analyzed, such as the one published by the *Revista América Economía*.

growth, with a greater impact on informal businesses.⁶ Although the survey does not distinguish indigenous companies, it is to be expected that they face an even more severe financial constraint⁷ or gain access to financing under worse terms and conditions.⁸ In general, the financial products available in the local financial system are not suited to the reality of indigenous land tenure and economies. Under the indigenous land tenure system, land is collectively owned, cannot be transferred, and cannot be mortgaged and thus cannot be used as collateral. In addition, financial institutions perceive high risk in indigenous businesses given current high levels of conflict.⁹ Moreover, indigenous people are usually unwilling to receive private investments in the forms that they are currently offered, in that they are perceived as disrespectful of their sociocultural practices and customs. Lastly, the development instruments used by institutions such as the Instituto de Desarrollo Agropecuario [Institute for Agricultural Development] (INDAP) and the Servicio de Cooperación Técnica [Technical Cooperation Service] (SERCOTEC) are primarily based on subsidies that serve the needs of small-scale endeavors and are thus unsuited to indigenous business initiatives that are more geared toward growth.

- 1.6 **Limited business organization.** Most indigenous companies are characterized by limited capacities in terms of both strategic, commercial, and financial management and productive processes. For example, most agricultural operations of Mapuche origin are small (less than 10 hectares) and are run by individual or communal producers with low educational levels (more than 70% of whom have not completed basic education). In addition, the per hectare yields of Mapuche operations are significantly lower than the national averages.¹⁰ These organizational weaknesses extend to businesses in other sectors and belonging to other native peoples. In recent years, the Bank has conducted a series of studies that were able to identify various opportunities for the development of large-scale business initiatives or projects in various native communities, sectors, and regions. Those in the following areas stand out: renewable energy (wind, solar, hydraulic), tourism, forestry (reforestation, native forests, forest services, certified wood), agriculture (lupines, fruit trees, livestock) and aquaculture (opportunities associated

⁶ [Fourth Microenterprise Survey 2015](#). Ministry of Economy, Development, and Tourism. Government of Chile.

⁷ According to the study "[Agricultura Indígena Chilena. Información social y productiva según etnia](#)," published by the Office of Agrarian Studies and Policies, and based on the 2007 Agricultural and Forestry Survey, only 17.1% of Mapuche producers gained access to loans (14.7% INDAP, 1.4% Banco Estado, 0.7% private banks, and 0.2% agroindustry).

⁸ According to interviews conducted by the project team with financial sector experts, the key source of bank financing accessed by the indigenous population is that offered by the retail sector, but the tenor and cost conditions and the guidance provided are not suited to the development of sustainable indigenous enterprises.

⁹ Indigenous issues revolve around the historical conflict over land tenure (Report of the Commission on the Historical Truth and a New Deal for the Indigenous Peoples, 2008). Today, those problems and conflicts take the form of demand for plots from CONADI, destruction of infrastructure and agricultural machinery, and burning of vehicles. According to the Intercultural Chile Foundation, 132 disputes were recorded between January and April 2015. In the indigenous communities, the impact of this conflict is seen in the militarization of indigenous lands and in prosecution under the Law on the Internal Security of the State.

¹⁰ Study cited in footnote 7.

with Law 20,249 of 2008, which created the Indigenous People's Marine and Coastal Zone and is known as the Lafkenche Law).¹¹ Those studies show that these potential projects have strengths and weaknesses. The strengths are the tangible and intangible assets of the indigenous peoples, the potential for generating externalities for the country's key sectors, and the possibility of helping to improve the climate of pluricultural coexistence. The weaknesses are the above-mentioned organizational problems, notably the lack of information on potential markets, inexperience in the preparation of business plans, the lack of management capacities, and the absence of economic governance structures.

- 1.7 **Lack of capacity for the design and evaluation of business promotion policies targeting the indigenous peoples.** Existing business development policies and programs in Chile, including those of the Corporación de Fomento de la Producción (CORFO) and SERCOTEC, Chile's pertinent business development institutions, have given little attention to indigenous communities' enterprises, particularly those with potential for growing and achieving a sustainable foothold in the markets. For reference, these institutions design universal development instruments, enabling them to work with the average among its target population. However, they do not have an effective working framework for the design and validation of innovative development instruments that seek to adapt to the demands of specific groups that, like the indigenous peoples, present some characteristics that marginalize them from access to the standard instruments. In the case of CORFO, for example, the number of indigenous beneficiaries compared to the total number of beneficiaries is estimated to be very low, although there are no precise figures because there is no accounting to differentiate them. For its part, SERCOTEC has the Fem Mapu Program, which is recent and serves only the Mapuche population in the Araucanía Region.
- 1.8 **The program.** This program will launch an innovative mechanism in Chile to identify, prepare, and finance indigenous business initiatives that demonstrate social and economic sustainability. The innovative nature of the program is based on the following considerations: (i) only business initiatives freely proposed by indigenous peoples' organizations that comply with a sociocultural and technical eligibility protocol will be supported; (ii) the business initiatives must be partnerships of a certain size; (iii) the program will not provide direct financing, but rather guarantees to facilitate access by the indigenous business initiatives or projects to resources provided by financial intermediaries under market conditions; and (iv) the program will help mobilize resources associated with other public policies for productive development executed by agencies such as CONADI, INDAP, and SERCOTEC. These innovative features, incorporated in the design of the program's three components, seek to reduce the barriers to the development

¹¹ More information can be consulted in the various [Spanish-language] reports from Bank-financed consulting assignments, such as: "Reforestation on lands transferred by forestry companies in the Didaico community," "Strengthening indigenous forestry entrepreneurship for modeling a culturally appropriate business plan for the Mapuche Cooperative," "Seashore coastal area management plan of the native peoples in Trincao," "Indigenous Community Tourism Project in the Andean Araucanía," "Spatial analysis and generation of geographic coverage for indigenous entrepreneurship pilots in non-conventional renewable energy (NCRE)," and "Design of indigenous entrepreneurship support models in the forestry, energy, and dairy sectors and other agricultural activities."

of previously identified indigenous communities' enterprises. In addition, the design incorporates lessons learned from international experience (paragraph 1.9) and other earlier programs financed by the Bank in Chile (paragraph 1.10). Lastly, the program will be implemented by CORFO, the Chilean institution with the most experience in productive development and management of guarantee funds.

- 1.9 **International experience.** The experiences of New Zealand, Australia, Canada, and Alaska were studied for the design of the program.¹² In New Zealand, the Maori Development Corporation and the Poutama Trust were analyzed. In Australia, *Indigenous Business Australia* was examined; this is considered a successful case in that more than 90% of the new businesses supported continued to operate after one year, 79% were still operating after two years, and 68% were still operating after three years. In Canada, the Business Development Bank of Canada - The Aboriginal Banking Department, Indian Oil and Gas Canada, and the First Nations Clean Energy Fund were analyzed. Lastly, the case of the Alaska Native Corporations in the United States was studied. The analysis of these experiences led to identification of the following lessons for the design of the program: (i) it is important for indigenous communities to express their willingness and interest regarding the productive enterprises or projects they want to develop; (ii) it is necessary to understand the cultural, historical, and social context of the indigenous communities with which one is working and to adjust policies and programs to that context; (iii) there must be an appropriate legal and regulatory framework that provides the outlines of productive development policies involving indigenous communities; (iv) the focus should be on sustainable productive projects with sizeable positive economic and social impacts; (v) projects must have a clear governance structure that is acceptable both to the indigenous communities and to private investors; (vi) it is not enough to provide financing—the medium- and long-term success of the projects depends on the existence of a favorable investment climate in the indigenous communities and on those communities' being adequately trained to achieve the economic, financial, and socioenvironmental sustainability of the projects; and (vii) these are long-term interventions that require a maturation and learning period that may sometimes take time. Even at the outset, there may be problems with the projects' viability, while governmental support entities and the indigenous communities learn which strategies are best for carrying out projects that are socially, environmentally, and economically sustainable over time. Thus, there must be perseverance in the support, but also the ability to learn from the outcomes of project implementation. To this end, it is important to have ongoing evaluation and feedback mechanisms for policy design.
- 1.10 **Prior experience of the Bank.** The lessons learned from initiatives for indigenous peoples previously financed by the Bank in Chile were also taken into account. Particular consideration was given to Phase I (1311/OC-CH) and Phase II (1784/OC-CH) of the Integral Development Program for Indigenous Peoples, known as *Orígenes*. In terms of inclusive and participatory public policies with the indigenous population, the *Orígenes* program marked a milestone in the application of appropriate methodologies suited to the context of international

¹² For more information see: [Lessons Learned from International Experiences](#).

indigenous law. In this respect, it was a precursor and champion of the promulgation of ILO Convention 169 in the country. Programs 1311/OC-CH and 1784/OC-CH were approved in 2001 and 2008. Through them, investments of close to US\$72 million were implemented, benefiting 1,700 communities and 55,000 indigenous families. The main lessons learned and reflected in this program are as follows: (i) there must be an executing agency installed within the public institutional structure that is capable of coordinating the different sectors and providing continuity for the working guidelines and international standards of indigenous public policies; (ii) the promotion of partnership and business capacity among the indigenous organizations and their territories must be handled in a relevant way. Promotion based solely on subsidies for subsistence is not sufficient to trigger business development and market linkage processes; (iii) sociocultural work requires the active participation of traditional indigenous authorities in order to provide support and continuity to commitments established with the public authority and with the community itself and linked indigenous social organizations; and (iv) cultural and identity issues should be considered as part of the business project design processes and mechanisms for evaluating and monitoring compliance with a standard on these topics must be ensured so as to grant legitimacy to public policies on productive development.

- 1.11 **Analysis of supply and demand.** This program will address business initiatives proposed by indigenous peoples' organizations. These include the indigenous communities or organizations recognized by Law 19,253, the indigenous cooperatives recognized by the General Law on Cooperatives, amended by Law 20,881, and companies with indigenous participation. According to the 2015 CONADI registry, there are 3,773 indigenous communities and 2,358 indigenous organizations. So far, 820 plots have been transferred to these communities through the CONADI land fund and this figure is estimated to be increasing to 900 over the next four years. In addition, according to data from the Partnership and Social Economy Division, there are 95 cooperatives and 80 trade associations with an indigenous base. In addition, there are probably some 100 potential non-conventional renewable energy (NCRE) projects in indigenous territories or in surrounding areas. Considering the cooperatives and trade associations, the communities with transferred plots, and the NCRE projects, the program has a universe of 1,175 potential beneficiaries. During program preparation, a specific portfolio of 31 projects was already identified that could be supported by the program; these belong to the indigenous community tourism, agroindustry, forestry, aquaculture, and NCRE sectors. Overall, these projects represent aggregate demand for financing of US\$113 million. These projects include a solar energy plant in San Pedro de Atacama, a wind power generation farm in Chile, the production and marketing of lupine seeds in the Araucanía, and a tourist route in the Andean Araucanía.¹³ In addition, there were consultations with financial intermediaries that expressed interest in participating in the program by providing financing for indigenous business projects.

¹³ For more information, see the [Spanish-language] consulting assignment report: "Design of indigenous entrepreneurship support models in the forestry, energy, and dairy sectors and other agricultural activities." November 2015. José Pablo Undurraga, consultant.

1.12 **Strategic alignment.** The program is aligned with the 2014-2018 country strategy with Chile (document GN-2785), specifically productive development with emphasis on the priority areas of competitiveness, innovation, and energy. It is also linked to the cross-cutting area of development of indigenous peoples through support for indigenous companies, as well as the cross-cutting area of gender equality and diversity. The program is consistent with the 2010-2020 Update to the Institutional Strategy (document GN-2788-5) and the 2016-2019 Corporate Results Framework (CRF) (document GN-2727-4), and is aligned with the development challenges of: (i) social inclusion and equity; and (ii) productivity and innovation, as well as the cross-cutting areas of gender equality and diversity and institutional capacity and the rule of law, through the CRF Indicators of Regional Context and Country Development Results, in that it contributes to: (i) the number of micro, small, and medium-sized companies financed; (ii) the number of jobs created by the companies supported; and (iii) the number of government agencies benefiting from projects that strengthen technological and management instruments for improving public service delivery. In addition, the program is consistent with the Gender and Diversity Sector Framework Document (document GN-2800-3), which emphasizes the importance of participation in the labor force and entrepreneurship of women, indigenous peoples, and Afro-descendants; with the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-3); and the Science, Technology, and Innovation Sector Framework Document (document GN-2791-3), in terms of the business climate for private sector development. Lastly, the program is aligned with the priority area of the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) with reference to strengthening institutional capacities for implementing innovation policies and the Strategy on Social Policy for Equity and Productivity (document GN-2588-4).

1.13 **Coordination with other programs.** This program will be prepared and implemented in coordination with the Productive Development Financing Program (CH-L1098), which will be executed by CORFO to improve the supply of productive financing instruments in the Chilean financial sector for micro, small, and medium-sized enterprises.

B. Objectives, components, and cost

1.14 The program's general objective is to contribute to increasing the incomes of indigenous households in Chile by supporting business initiatives or projects proposed by indigenous organizations that are economically and socioculturally sustainable, primarily in the agriculture, forestry, NCRE, tourism, and aquaculture sectors.

1.15 The specific objectives are to: (i) strengthen the capacities of indigenous organizations to improve the technical and sociocultural viability of their business initiatives or projects; (ii) improve access to suitable financing for sustainable indigenous business initiatives or projects; and (iii) strengthen the institutional capacities of CORFO and other public or private agencies related to the execution of indigenous productive development programs.

1.16 The program will cover business initiatives and projects from all the indigenous peoples recognized under Chilean legislation and the requirements set out in the program's Operating Regulations.

- 1.17 **Component I. Technical and sociocultural support (US\$1.9 million).** The objective of this component is to implement business initiatives or projects proposed by indigenous people's organizations. This will be done by financing consulting and technical assistance activities intended to support indigenous organizations, while promoting in particular the participation of women,¹⁴ in three areas or stages of work: (i) initial dialogue and multicultural openness; (ii) development and analysis of value proposals; and (iii) development and analysis of investment project profiles. These supports will be provided in accordance with a sociocultural eligibility protocol that is part of the PORs (see paragraphs 3.4 and 3.7),¹⁵ which will make it possible to verify the following requirements: (i) the prior, free, and informed consent of the communities proposing the project, which will include the presence of an indigenous economic governance agreement, a study of cultural uses of the territory, a land-use management plan, and a beneficiaries' life plan that should be made consistent with the management plan for the enterprise's future earnings; (ii) the long-term economic viability of the project; (iii) the project should not negatively impact the sustainability of the land, or the long-term capacity to maintain the living conditions of its inhabitants; (iv) there should be no objections to the project on the part of the communities' traditional authorities; (v) there should be an analysis of relevant risks, including sociocultural and environmental risks, and a related risk mitigation plan; (vi) in the event that non-indigenous partners are involved in the project, all agreements reached will be validated by the community, according to its customs and usages and the law; and (vii) arbitration measures should be incorporated that involve the participation of the communities' traditional authorities. This component will also identify and coordinate supplemental supports to communities through productive development instruments and services managed by other public or private institutions such as SERCOTEC, INDAP, CONADI, and others available to CORFO. A funds allocation committee, made up of CORFO representatives and external experts, will evaluate whether project profiles meet the requirements of the sociocultural eligibility protocol. Those business project profiles that are evaluated favorably by the committee may apply to the program's guarantee fund (see paragraph 1.18). At the end of the program, a total of 36 indigenous projects or business initiatives are expected to have complied with the sociocultural eligibility protocol.
- 1.18 **Component II. Financial support (US\$40 million).** The objective of this component is to implement the Indigenous Investment Guarantee Fund (COBIN) in CORFO to promote indigenous business initiatives or projects. This fund will grant guarantees or supplemental risk coverage for credit operations, factoring, leasing, and commercial papers, the beneficiaries of which are indigenous business initiatives or projects that meet the requirements of the sociocultural eligibility protocol (see paragraph 1.17) established in the COBIN operating regulations (see

¹⁴ Prior experiences working with communities indicate low participation by women in the dialogues when the discussion groups are mixed. Accordingly, in this program, participatory workshops will be conducted with groups made up of women only in order to gather their opinions and recommendations during the phases of multicultural openness, analysis of value proposals, and preparation of investment project profiles. These groups targeting women are expected to encourage their participation in governance structures and in the governing bodies of indigenous companies.

¹⁵ For more information on the protocol, see the [Draft Program Operating Regulations](#).

paragraphs 3.5 and 3.7).¹⁶ These operations will be conducted under market conditions by CORFO-eligible financial intermediaries (banks, factoring companies, savings and loan cooperatives, etc.). These intermediaries will analyze and evaluate the indigenous business initiatives or projects independently and according to their own policies. The guarantees may cover up to 90% of the principal of the loan that such financial intermediaries grant, with a maximum per beneficiary and Taxpayer Master File of up to 300,000 UFs.¹⁷ In addition, a deductible for the payment of each guarantee may be established for the eligible financial intermediary. The fee per guarantee will be up to 2% of the guarantee per annum.¹⁸ With regard to collection processes, CORFO will propose to the eligible financial intermediaries that the application of a mediation mechanism be in place with the indigenous communities involved under terms to be established in the PORs. In order to address the expected demand (see paragraph 1.11), the COBIN will have an estimated size of US\$40 million, to be provided by the Bank in at least three tranches or disbursements (see paragraph 3.5). At the end of the program, guarantees are expected to have been granted to an estimated 24 indigenous communities' initiatives or enterprises.

- 1.19 **Component III. Strengthening of institutional capacities (US\$150,000).** The objective of this component is to improve the institutional capacities of CORFO and other Chilean development agencies for the successful implementation of productive development programs and instruments relevant to the indigenous peoples. Under this component, primarily training activities, technical studies, and consulting assignments will be financed for the following activities, among others: (i) monitoring and evaluation of program outcomes and impacts; (ii) systematization of lessons learned from the program; (iii) improvement in the capacities of productive development institutions; and (iv) program dissemination and collaboration with other public or private institutions, such as SERCOTEC, INDAP, and CONADI, to effectively coordinate and evaluate the business initiatives and projects supported by the program. To execute this component, CORFO may sign collaboration agreements with other institutions.
- 1.20 **Program costs.** The total cost of the program is estimated at US\$42.85 million; of this amount, up to US\$40 million will be financed by the Bank and the remaining US\$2.85 million represent the local contribution (Table 1).

¹⁶ For more information on the characteristics of the COBIN see the [Draft Program Operating Regulations](#).

¹⁷ The *unidad de fomento* (UF) is a readjustment measure based on the consumer price index variation. The value of the UF is reported by the Central Bank of Chile and was 25,910 Chilean pesos on 5 May 2016 (about US\$39).

¹⁸ The COBIN will replicate the conditions established by the Investments Guarantee Fund (FOGAIN) that CORFO has been operating with excellent results. For more information on CORFO's experience, consult: "[Estudio sobre los Programas de Crédito con Garantía Estatal](#)," of March 2014 and "[Informes Mensuales de Garantías CORFO](#)." For instance, in 2015, the FOGAIN granted 62,951 guarantees on a total credit amount of approximately US\$1.8 billion.

Table 1: Program Costs (US\$)

Components	IDB	Local contribution	Total	%
Component I: Technical and sociocultural support		1,900,000	1,900,000	4.43
Multicultural openness and preparation of value proposals		1,200,000	1,200,000	
Preparation of investment project profiles		700,000	700,000	
Component II: Financial support	40,000,000		40,000,000	93.35
Component III: Strengthening of institutional capacities		150,000	150,000	0.35
Administration		800,000	800,000	1.87
Total	40,000,000	2,850,000	42,850,000	100.00
%	93.35	6.65	100.00	

1.21 **Recognition of expenses.** The Bank may recognize eligible expenses under Component I incurred by the borrower against the local contribution prior to the loan approval date, up to the amount of US\$700,000 (24.56% of the estimated amount of the local contribution), provided requirements substantially similar to those established in the loan contract have been met. Such expenses must have been incurred on or after 10 December 2015 but in no case will include expenses incurred more than 18 months prior to the loan approval date.

C. Key results indicators

1.22 **Expected impacts and outcomes.** The program is expected to help reduce the gaps in incomes between indigenous and non-indigenous households, to be measured on the basis of the indicators provided by the CASEN survey. The expected outcomes are as follows: (i) improvement in the independent incomes of the indigenous households supported by the program as compared to a control group; (ii) at least 75% of the covered initiatives or projects will remain operational two years after receiving the support; (iii) 60% of the indigenous organizations that seek support from the program successfully comply with the sociocultural eligibility protocol; and (iv) a minimum of US\$12 million is leveraged in technical assistance from other CORFO, SERCOTEC, and INDAP instruments and US\$100 million in financial intermediaries' financing operations intended for indigenous communities' initiatives or enterprises, covered by the COBIN. At the outputs level, the program will contribute to the three CRF indicators, as indicated in paragraph 1.12 and in Annex II, Results Matrix. Over the medium term, qualified demand for financing on the part of indigenous organizations is expected to have been generated and financial institutions are expected to have greater willingness and capacity to grant financing to those organizations.

1.23 **Economic evaluation.** An economic analysis was done on the principal interventions anticipated in the program, estimating the potential benefits based on the analysis of a sample of indigenous communities' projects in different sectors. To this end, income from sales in the sample projects and their externalities were

considered and then extrapolated to the total number of projects that the program is expected to support. The results indicate that, if the established targets are met, and considering a conservative scenario, the program shows a net present social value of US\$88.9 million and an internal rate of return of 10%, higher than the social discount rate of 6% considered for this evaluation. The most sensitive variables include the key parameters associated with the cycles of the productive sectors involved, such as prices, production capacity, and probability of success of those initiatives (see [Economic Analysis](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The operation is a specific investment loan with an execution period of four years, which is deemed appropriate considering the demand for financing on the part of indigenous enterprises (see paragraph 1.11) and the disbursement mechanism provided in the program (see paragraph 3.5).

B. Environmental and social risks

- 2.2 The resources from this loan will be used to provide financing to indigenous projects and enterprises and to contract consulting assignments, and will have a positive direct effect on environmental and social factors. The program is classified as a Category "C" operation in accordance with the Environment and Safeguards Compliance Policy (OP-703). In addition, the operation will comply with the requirements set out in the Operational Policy on Indigenous Peoples (OP-765) with respect to development with identity. As an environmental and social condition, CORFO must include in its periodic results an analysis of the main risks detected, including environmental and social risks; and with the eligible financing intermediaries, will monitor compliance of the project's interventions with the environmental and social laws in effect in the country and with the requirements of the PORs.

C. Fiduciary risks

- 2.3 During program preparation, CORFO's execution and transfers mechanisms were analyzed as were the national systems used and the capabilities of its staff. The information reviewed indicates that CORFO has a positive funds administration track record and ample experience both in the implementation of mechanisms to provide technical assistance to companies as well as in guarantee funds. The review found that CORFO has adequate capacity to execute the program and that the level of fiduciary risks is low. Nonetheless, some adaptations and actions were identified for execution; these are detailed in Annex III, Fiduciary Agreements and Requirements.

D. Other project risks

- 2.4 During program preparation, a risks management workshop was held with the participation of CORFO and the Bank, in which nine risks were identified, two of which are high, three of which are medium, and the rest, low. With the Bank's support, CORFO will implement a mitigation plan that includes specific actions for each of the high and medium risks.

- 2.5 The high risks are as follows: (i) failure to obtain financing for the expected portfolio of projects due to difficulties in implementing partnership and economic governance agreements and an increase in conflict situations; and (ii) the guarantee fund's failure to achieve sustainability due to a high rate of loan losses. The following actions will be taken to mitigate these risks: (i) the program will conduct ongoing technical monitoring to strengthen the projects' governance and business, productive, and social management processes through professionals who know the culture and indigenous context of the projects and are trained in the use of appropriate methodologies; (ii) financial education courses will be organized for the beneficiaries; (iii) an effort will be made to reduce the COBIN's risk through sector and territorial diversification of the project portfolio; and (iv) the PORs will propose that all agreements in which indigenous beneficiaries participate use contract models to minimize disputes or mediate their resolution, so as to achieve a low default rate in the fund and improve collection processes in the event of default. Through Bank-financed technical assistance, drafts of such models will be developed for CORFO's consideration.
- 2.6 The medium risks are as follows: (i) failure to achieve implementation of the innovative mechanisms provided in the program due to a lack of trust on the part of the stakeholders (financial intermediaries and indigenous communities); (ii) the projects supported are not sustained over time due to management or economic governance difficulties; and (iii) demand for the program falls because the projects proposed by the indigenous organizations have potential negative social or environmental effects. The following actions will be taken to mitigate these risks: (i) a communication campaign will be conducted to inform stakeholders about the program's characteristics and expected benefits; (ii) scholarships will be granted to provide management training to the representatives of each of the indigenous organizations supported by the program; and (iii) consultants specializing in environmental and social matters will be incorporated to advise on projects with potential negative impacts.
- 2.7 **Sustainability and scalability of the program.** The program's results are expected to be sustained and scaled up over the medium and long term. This will be achieved thanks to the following factors incorporated in the design of this program: (i) the use of a sociocultural protocol to determine project eligibility and selection; (ii) technical support to indigenous organizations; (iii) strengthening of productive development institutions that work with indigenous enterprises; (iv) the creation and prudential management of the COBIN, which will continue to operate beyond the program; and (v) continuous improvement in the willingness and capacity of the financial institutions involved in the program to grant financing for indigenous communities' projects or enterprises.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Republic of Chile and the executing agency will be CORFO.
- 3.2 CORFO was created in 1939 as a government agency with legal status and its own assets. Its mission is to improve the country's competitiveness and productive

diversification by developing investment, innovation, and entrepreneurship as well as by strengthening human capital and technological capacities for achieving sustainable and territorially balanced development. CORFO's development activities are organized in five divisions: (i) investment and financing; (ii) competitive development; (iii) innovation; (iv) development of technological capacities; and (v) entrepreneurship. In addition, CORFO has offices in all regions of the country. CORFO's development actions are carried out through numerous instruments or programs, including information services, guarantees, and loans (with CORFO acting as a second-tier banking institution).

- 3.3 CORFO will use its organizational structure to execute the program, assigning the responsibilities and functions that are necessary for achieving the desired objectives. A program execution team (PET) will be established within the executing agency; it will include at least: (i) a coordinator; (ii) an individual responsible for each of the program's components; and (iii) an individual responsible for administrative matters (procurement and financial aspects). The functions of the PET and its positioning in the executing agency will be established in the PORs. The foregoing notwithstanding, the main functions of the PET will include: (i) administration of the program's financial resources; (ii) planning and implementation of activities envisaged in the program's components; (iii) systematization of information for monitoring outputs and evaluating program outcomes and impacts; (iv) management of fiduciary matters; and (v) preparation of financial statements and disbursement requests.
- 3.4 Execution of the program's first component will consist primarily of contracting consulting services to support the indigenous organizations in the development of project profiles or business initiatives. These project profiles will be evaluated by a funds allocation committee made up of CORFO representatives and external experts according to a sociocultural eligibility protocol that will be part of the PORs.¹⁹ The PORs will also contain the requirements for being a member of the aforementioned committee, the composition of the committee, and the procedure for appointing its members and making decisions.
- 3.5 As provided for in the second component, the execution of the COBIN will be adapted to the PORs, which will cover the following aspects as well as others: (i) the CORFO guarantee approval cycle; (ii) the eligibility criteria for beneficiaries, the operations to be covered, and the financial intermediaries (said intermediaries will analyze and evaluate the indigenous business initiatives or projects (see paragraph 1.18) independently and according to their own policies); and (iii) the mechanisms to establish the investments of COBIN resources. The Bank's first disbursement under the program, of up to US\$10 million, will be used to set up the COBIN. For the second and subsequent disbursements, CORFO will have to demonstrate that it has granted cumulative guarantees from the preceding disbursements in an amount equivalent to no less than 65% of those disbursements (see paragraph 3.7).

¹⁹ The sociocultural protocol will include the mechanisms for participation by the indigenous communities that propose their projects and the criteria for determining the sociocultural relevance and viability of those projects through the requirements indicated in paragraph 1.17, as well as gender equality considerations.

- 3.6 **Fiduciary agreements and requirements for procurement.** To execute Components I and III of the program, CORFO may use Intermediary Operating Agents (IOAs), according to the requirements set out in the PORs. The PORs may require, among others, that a performance agreement be signed in advance between CORFO and the respective IOA, with the Bank's no objection. IOA rules are comparable to the "Procurement Agents" indicated in section 3.17 of the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9). The IOA will act on a mandate from CORFO, contracting consulting services and individual consultants as necessary for the program's planned objectives. Contracting will be done in accordance with the policies and procedures established by CORFO, which are comparable to and compatible with the country procurement system called ChileCompra, the advanced use of which has been approved by the Bank. In addition, given the public nature of the financial resources to be used, the Office of the Comptroller General of the Republic may audit their use. For any contracting done by CORFO and/or the IOA, the scope of approval of the use of the ChileCompra public procurement system that was approved by the Bank's Board of Executive Directors, will apply as will the provisions of section I of the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), under the terms described in more detail in Annex III, Fiduciary Agreements and Requirements. Contracting done by CORFO and/or the IOA must be identified in the program's Procurement Plan and each update thereof must have the Bank's "no objection."
- 3.7 **The special contractual conditions precedent to the first disbursement of the loan will be that: (i) the PORs have been approved by the Executive Vice President of CORFO, with the prior agreement of the Indigenous Affairs Unit of the Ministry of Social Development with respect to the sociocultural protocol that is part of the PORs, under terms previously agreed upon with the Bank; (ii) the PET has been set up in CORFO and its coordinator and the person responsible for administrative matters have been hired or appointed.** A special contractual execution condition precedent to the second and subsequent disbursements intended for the fund provided for under Component II of the program will be for CORFO to demonstrate that it has granted cumulative guarantees from the preceding disbursements in an amount equivalent to no less than 65% of those disbursements.
- B. Summary of results monitoring arrangements**
- 3.8 **Monitoring and evaluation.** Monitoring and evaluation will be performed by CORFO, through the PET, according to the indicators in Annex II, Results Matrix, and the guidelines of the [Monitoring and Evaluation Plan](#). Every six months, CORFO will submit reports to the Bank describing progress made in terms of outputs, outcomes, and investments by component. In particular, these reports should indicate the number of projects that received technical assistance from the program by sector, ethnic group, and region, as well as the social and economic characteristics of the families associated with those projects. They should also include the number and characteristics of the financial operations carried out within the COBIN framework, as well as the performance of the financial intermediaries

Lastly, these reports should identify the problems and risks of the program and emerging lessons to be learned.

- 3.9 **Midterm and final evaluation.** A midterm and a final evaluation will be performed. The midterm evaluation will be performed 30 months after program execution begins and will focus primarily on analysis of the operational and functional aspects of the sociocultural eligibility protocol, given that within that period it is not expected that projects will have matured enough to measure any other types of outcomes. The final evaluation will be performed 42 months after program execution begins and will focus on the program's expected outcomes. Both evaluations will be performed through specialized consulting services with terms of reference to be agreed upon by CORFO and the Bank. The final evaluation, particularly to analyze the evolution of the average independent income of indigenous families, will use the following methodologies: before and after comparison, differences in differences with propensity score matching and regression discontinuity design.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Institutional Capacity and the Rule of Law		
Regional Context Indicators			
Country Development Results Indicators	-Micro / small / medium enterprises financed (#) -Micro / small / medium enterprises provided with non-financial support (#) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2785	- Support for the individual and collective rights of the indigenous population. - Number of NCRE projects on indigenous lands with at least 30% indigenous equity	
Country Program Results Matrix	GN-2849	The intervention is included in the 2016 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
3. Evidence-based Assessment & Solution	9.3		10
3.1 Program Diagnosis	8.4	33.33%	10
3.2 Proposed Interventions or Solutions	1.8		
3.3 Results Matrix Quality	3.6		
3.3 Results Matrix Quality	3.0		
4. Ex ante Economic Analysis	10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.5		
4.3 Identified and Quantified Costs	1.5		
4.4 Reasonable Assumptions	1.5		
4.5 Sensitivity Analysis	1.5		
5. Monitoring and Evaluation	9.6	33.33%	10
5.1 Monitoring Mechanisms	2.5		
5.2 Evaluation Plan	7.1		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Low		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	C		
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External control, Internal Audit. Procurement: Information System, Contracting individual consultant.	
Non-Fiduciary			
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	In order to incentivize women's participation in the dialogue and decision-making process, there would be groups organized exclusively for women. Furthermore, women's participation in firms' governance and management will be promoted.	
Labor			
Environment	Yes	The program will follow an eligibility protocol that includes a chapter regarding environmental issues.	
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Technical cooperation resources contributed to identify a portfolio of potential indigenous entrepreneurship initiatives to receive support from the program.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	The project includes an impact evaluation that aims to measure the impact of the indigenous entrepreneurship program on household income.	

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The main objective of the project is to increase the income of the Chilean indigenous households by supporting the development of enterprises or projects proposed by indigenous organizations that are currently excluded from the technical and financial services market. The specific objectives are to: (i) strengthen the capabilities of the indigenous organizations in order to improve the technical and social viability of their enterprises or projects, ii) improve access to adequate financing of the sustainable indigenous enterprises or projects, and iii) strengthen the institutional capacities of CORFO and other public and private institutions involved in executing programs targeted to indigenous productive development.

The project presents a complete diagnosis; it includes a precise description of the targeted population and the obstacle for the success of indigenous entrepreneurship initiatives in selected economic sectors in Chile. It also includes evidence from similar projects implemented in Alaska, Australia, Canada, and New Zealand, where lessons learned could be taken into consideration for the implementation of the present project. In terms of the results matrix, outcome indicators reported are SMART and have means of verification.

The cost-benefit analysis (CBA) is consistent with the program logic and considers the costs and benefits that result from the program. The CBA includes a complete sensitivity analysis that shows a positive NPV even in some extreme scenarios.

Finally, the project includes a monitoring and evaluation plan. The effectiveness of the proposed intervention will be measured following different methodologies: an ex-post cost benefit analysis approach, before and after, differences-in differences combine with matching, and regression discontinuity design.

The risks identified in the risk matrix are rated for magnitude; they include mitigation measures and related metrics to track their implementation.

RESULTS MATRIX

<p>General and specific objectives of the program:</p>	<p>The program's general objective is to help increase the incomes of indigenous households in Chile by supporting business initiatives or projects proposed by indigenous organizations that are economically and socioculturally sustainable, primarily in the agriculture, forestry, non-conventional renewable energy, tourism, and aquaculture sectors. The specific objectives are to: (i) strengthen the capacities of indigenous organizations to improve the technical and sociocultural viability of their business initiatives or projects; (ii) improve access to suitable financing for sustainable indigenous business initiatives or projects; and (iii) strengthen the institutional capacities of CORFO and other public or private agencies related to the execution of indigenous productive development programs.</p>
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IMPACT INDICATORS

	Impacts	Unit of Measurement	Baseline	2020 Target	Means of verification/comments
1	Gap in average independent income between indigenous and non-indigenous households.	Percentage	27	22	<p>Calculated as the difference between the average independent income of indigenous households and that of non-indigenous households. Indigenous households are those where the head of household belongs to an indigenous group.</p> <p>Source: CASEN. Baseline: In 2013, the average independent income of indigenous households was Ch\$548,837 and that of non-indigenous households was Ch\$749,987 (2013 CASEN).</p>

OUTCOME INDICATORS

	Indicator	Unit of measurement	Baseline	2020 Target	Means of verification/Comments
1	Proposed indigenous enterprises supported that are able to comply with the program protocol.	Percentage	0	60	Calculated as the % of proposals that, after receiving technical support from the program, are able to comply with the sociocultural eligibility protocol. Baseline: 0. Source: CORFO. Based on minutes and reports from the Committee of Experts responsible for evaluating compliance with the sociocultural eligibility protocol.
2	Financing obtained by program-supported indigenous enterprises.	Millions of dollars	0	100	Calculated as the total amount of financing received by the indigenous enterprises that became beneficiaries of the COBIN. Baseline: 0. Source: CORFO, based on data from eligible financial intermediaries.
3	Technical support received by indigenous enterprises that are beneficiaries that comes from other programs.	Millions of dollars	0	12	Calculated as the total amount of funds associated with different types of technical supports provided to beneficiary indigenous enterprises by other programs and institutions outside the program. Baseline: 0. Source: CORFO, based on data from other productive development agencies.
4	Indigenous enterprises financed that remain in operation for at least two years.	Percentage	0	75	Calculated as the percentage of enterprises that record uninterrupted sales for two years after having received a guarantee from the COBIN. Baseline: 0. Source: CORFO, based on data monitoring beneficiaries of the COBIN and information from Internal Revenue. F29 and F50.

	Indicator	Unit of measurement	Baseline	2020 Target	Means of verification/Comments
5	Differences in the growth of independent income of indigenous households supported by the program compared to a control group.	Percentage	0	10	Calculated using differences in differences and with propensity score matching to compare the income of indigenous households supported by the program and that of a control group of indigenous households that did not receive support. Source: CASEN. Baseline: 0. In 2013 the average independent income of indigenous households was Ch\$548,837 (2013 CASEN).
6	Renewable energy projects in indigenous lands with at least 30% indigenous equity.	Amount	0	5	Indicator of 2014-2018 IDB Country Strategy with Chile. Source: CONADI, Ministry of Energy, and monitoring system of the CORFO program execution team (PET).

OUTPUT INDICATORS

Outputs	Cost in US\$	Unit of measurement	Baseline (*)	1	2	3	4	Total	Comments and Means of Verification
Component I	1,900,000								
Indigenous organizations supported through technical assistance for multicultural openness and preparation and analysis of value proposals.	1,200,000	Quantity	0	18	20	22	0	60	Source: CORFO PET monitoring system.
Investment project profiles prepared and analyzed.	700,000	Project profiles	0	11	12	13	0	36	Source: CORFO PET monitoring system.

Outputs	Cost in US\$	Unit of measurement	Baseline (*)	1	2	3	4	Total	Comments and Means of Verification
Component II	40,000,000								
Guarantees granted to indigenous enterprises.	40,000,000	Projects	0	8	8	8	0	24	This indicator will contribute to the following CRF indicators: (i) number of micro, small, and medium-sized enterprises financed; and (ii) number of jobs created by supported enterprises. CORFO will provide the information on jobs created by the indigenous enterprises supported. Source: CORFO PET monitoring system.
Component III	150,000								
People trained in indigenous productive development.	50,000	People	0	50	50	50	50	200	This indicator will contribute to the CRF indicator referring to the number of government agencies benefited by projects that strengthen technological and management instruments for improving public service delivery. CORFO will provide information on the institutions to which the individuals trained belong. Source: CORFO PET monitoring system.

Outputs	Cost in US\$	Unit of measurement	Baseline (*)	1	2	3	4	Total	Comments and Means of Verification
Communication and dissemination activities carried out.	30,000	Activities	0	5	5	5	5	20	Source: CORFO PET monitoring system.
Studies and evaluations of the program and other productive development instruments.	70,000	Reports	0	1	1	1	1	4	Source: CORFO PET monitoring system.
Milestone									
Profiles for investment projects led by women.	N/A	Percentage						20	Source: CORFO PET monitoring system.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Chile
Project number:	CH-L1105
Name:	Indigenous Development and Promotion Program
Executing agency:	Corporación de Fomento de la Producción (CORFO)
Prepared by:	Francisco Lois, (FMP/CCH); Raúl Lozano, (FMP/CPR); and Roberto Monteverde (Consultant)

I. EXECUTIVE SUMMARY

- 1.1 The borrower will be the Republic of Chile and the executing agency will be the Corporación de Fomento de la Producción (CORFO).
- 1.2 A risks workshop was conducted following the methodology for managing risks in projects, attended by CORFO staff and the project team, with a finding of low fiduciary risk.

II. FIDUCIARY CONTEXT OF THE COUNTRY AND THE EXECUTING AGENCY

- 2.1 The executing agency operates within the public financial administration system and is governed by Decree-Law 1,263 of 1975. It also uses the Enterprise Resource Planning system or the Systems Applications Products (SAP) for its budget, accounting, and payments, which provides information to the government financial management information system. This system is administered by the Budget Division to consolidate the central government's accounting. It also has a strong internal audit unit and is under the supervision of the Comptroller General's Office (CGR). The Bank has performed a diagnostic assessment of the development level of the following country systems: budget, treasury, accounting, government internal audit (Governmental General Internal Audit Council—CAIGG), and external audit (CGR); it concluded that they were highly developed.
- 2.2 To manage procurement, the executing agency uses the country procurement system (ChileCompra), a robust system with a modern and efficient electronic platform, through which most of the country's public procurement is transacted. For program execution, CORFO can fully or partially entrust to an Intermediary Operating Agent (IOA) the functions of supervision, monitoring, and administration. IOAs will be selected based on a call for proposals and will use CORFO's policies and procedures, which are comparable to ChileCompra's rules.
- 2.3 CORFO is regularly inspected by Chile's CGR, and the programs it executes, in budgetary terms, are monitored by the Budget Division of the Ministry of Finance.
- 2.4 According to current CORFO legislation, the establishment of the guarantee fund to be financed under Component II of the program requires, *inter alia*: (i) approval by the CORFO Board of Directors; (ii) the creation and approval of the fund's

operating regulations; and (iii) the amendment of Supreme Decree 793 of 2004, with its respective constitutional reviews by the CGR.

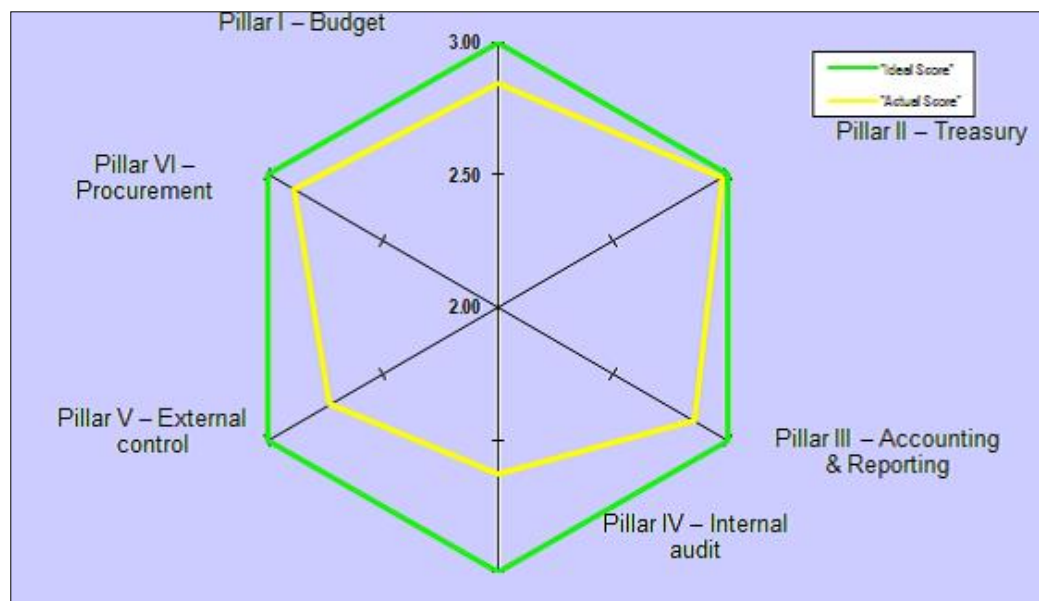
III. EVALUATION OF FIDUCIARY RISK AND MITIGATING ACTIONS

- 3.1 During the preparation of the program, CORFO's execution and transfer mechanisms were reviewed as were the country systems used and the capabilities of its staff. The information reviewed indicates that CORFO has a positive track record in the administration of funds, in the implementation of mechanisms for providing technical assistance to companies as well as in guarantee funds. The review found that CORFO has adequate capacity to execute the program and that the level of fiduciary risks is low. Nonetheless, some adaptations and actions for execution were identified and are detailed below.
- 3.2 As CORFO is inspected by CGR, many of its acts must be submitted to the CGR for review. In addition, it is regularly audited by the CGR, which reviews and audits CORFO's different programs and instruments. Similarly, the IOAs that CORFO uses for program execution are subject to the Law on Transparency and are audited by the CGR.
- 3.3 CORFO, as the operation's executing agency, has effective systems for the fiduciary management of the resources intended for the guarantee fund to be created as well as for the financing of the other program activities. In addition to the administrative accounting and financial systems mentioned, it has a project management system, which allows it to develop and manage projects, as well as keep in contact with the project officers; a computer-based financial intermediation system; and an integrated development system.
- 3.4 Although the financial fiduciary risks have been rated as low, some potential weaknesses were identified: the formulation of the program's financial statements and the programming of its financial resource needs stemming from the fact that the program execution team (PET) was only recently created and does not yet have knowledge of Bank requirements.
- 3.5 CORFO will use its organizational structure and will assign the responsibilities and functions necessary for program execution. The PET will be established within the executing agency. It will include at least: (i) a coordinator; (ii) one individual responsible for each of the program's components; and (iii) an individual responsible for administrative matters. The financing makes provision for the PET's operation.
- 3.6 As to the Indigenous Investment Guarantee Fund (COBIN), provided for under the program's Component II, its execution will be aligned with the program's Operating Regulations (PORs), which will cover the following matters, among others: (i) CORFO's guarantee approval cycle; (ii) the eligibility criteria for beneficiaries and operations to be covered and the financial intermediaries (who will analyze and evaluate the indigenous business initiatives or projects independently and according to their own policies; and (iii) the mechanisms to establish the investments of COBIN resources. The Bank's first disbursement, in the amount of up to US\$10 million, will be used to establish the COBIN. For the second and subsequent disbursements, CORFO must demonstrate that it has granted

cumulative guarantees from the preceding disbursements in an amount equivalent to no less than 65% of those disbursements.

- 3.7 The main procurement activity planned consists of consulting assignments provided for under Components I and III for US\$2.85 million, with the principal fiduciary risk in procurement being to differentiate contracting using other sources of funds managed by CORFO and its IOAs, to ensure the application of Section I of the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), within the scopes of the validation of the country system approved by the Bank. Mitigating actions will be to: (i) strengthen the CORFO team by contracting a fiduciary specialist; (ii) training the program team in CORFO and the IOA with respect to the preparation of procurement plans and the scopes of Bank approval for the use of the country procurement system; and (iii) in the PORs, incorporate CORFO's performance agreements with the IOAs, clauses that guarantee compliance with section I of the Bank's policies, within the scope of validation of the country system approved by the Bank.
- 3.8 The table and graph presented below detail the findings of the analysis of fiduciary risks.

Pillars	Score		Level of Development	Level of Risk
	Ideal	Actual		
Pillar I – Budget	3.00	2.84	High	Low
Pillar II – Treasury	3.00	2.97	High	Low
Pillar III – Accounting and reports	3.00	2.85	High	Low
Pillar IV – Internal audit	3.00	2.63	High	Low
Pillar V – External audit	3.00	2.73	High	Low
Pillar VI – Procurement	3.00	2.89	High	Low
Level of Development SGFP and Procurement	3.00	2.82	High	Low



IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACTS

- 4.1 The special contractual conditions precedent to the first disbursement are that: (i) the ROPs have been approved by the Executive Vice President of CORFO have entered into force, with the prior agreement of the Indigenous Affairs Unit of the Ministry of Social Development with respect to the sociocultural protocol that is part of the ROPs, under terms previously agreed upon with the Bank; (ii) the PET has been set up in CORFO and its coordinator and the person responsible for administrative matters have been hired or appointed.
- 4.2 A special contractual condition precedent to the second and subsequent disbursements intended for the fund under Component II of the program will be for CORFO to demonstrate that it has granted cumulative guarantees from the preceding disbursements in an amount equivalent to no less than 65% of those disbursements.
- 4.3 To determine the United States dollar equivalent of an expense incurred in local currency using loan proceeds, the same exchange rate as the one used to convert the funds disbursed in dollars into local currency will be used. For any requests for reimbursement of expenses charged against the loan and for recognition of expenses charged to the local counterpart, the exchange rate to be applied will be the one in force on the first business day of the month in which the request for reimbursement or the report justifying the expense in local currency charged against the local contribution is submitted to the Bank. In the recent negotiations on the Project for Productive Development Financing in Chile (CH-L1098), with the same executing agency, the borrower asked that the exchange rate on the first business day of the month that the request is submitted be used for the reimbursement of expenses and documentation on the local contribution.

- 4.4 The program's financial statements will be annual statements at the end of the fiscal year. These statements will be submitted to the Bank after being audited by independent auditors acceptable to the Bank, one of which is the CGR, in accordance with the terms of reference agreed upon with the Bank. They will be presented within 120 days of the end of the financial period and the final disbursement.
- 4.5 CORFO will supervise compliance with the PORs and will report to the Bank every six months on the performance of the financial intermediaries and the beneficiaries.
- 4.6 For the execution of the program's Components I and III, CORFO may use IOAs, for which purpose a performance agreement must first be signed between CORFO and the IOAs, which must have the Bank's no objection.
- 4.7 The Bank may recognize eligible expenses under Component I incurred by the borrower against the local contribution prior to the loan approval date, up to the amount of US\$700,000 (24.56% of the estimated amount of the local contribution), provided requirements substantially similar to those established in the loan contract have been met. Such expenses must have been incurred on or after 10 December 2015 but in no case will include expenses incurred more than 18 months prior to the loan approval date.

V. AGREEMENTS AND REQUIREMENTS FOR THE EXECUTION OF PROCUREMENT

- 5.1 In accordance with the agreements reached with the executing agency, those agreements and requirements to be considered in the special conditions are included below:
- 5.2 **Execution of procurement.** The procurement policies applicable to this loan are those set out in documents GN-2349-9 and GN-2350-9 and the country systems mentioned in paragraph 5.7.
- 5.3 **Selection and contracting of works, goods, and nonconsulting services.** Contracts will be executed in accordance with the provisions of paragraph 5.7, use of the country procurement system, and within the limits established (see Table 1).
- 5.4 **Selection and contracting of consulting firms.** Contracts will be executed in accordance with the provisions of paragraph 5.7, use of the country procurement system, and within the limits established (see Table 1).
- 5.5 **Selection of individual consultants.** Contracts will be executed in accordance with the provisions of paragraph 5.7, use of the country procurement system.
- 5.6 **Training.** Training activities will be developed by contracting services from consulting firms or individual consultants, as indicated in the preceding paragraphs.

- 5.7 **Use of the country procurement system.** The advanced use of Chile’s Bank-approved country procurement system¹ will apply to the procurement of: (i) goods and nonconsulting services, up to the threshold provided for national competitive bidding; (ii) works, up to the threshold for shopping for simple works; (iii) consulting services, up to the threshold for the shortlist made up of domestic firms; and (iv) individual consultants, no threshold. Over those thresholds, contracting and procurement wholly or partially financed by the Bank must comply with the procedures set out in the Bank’s procurement policies (documents GN-2350-9 and GN-2349-9) or be entirely financed from the local contribution, in the event that the executing agency wishes to use only domestic legislation. Any system or subsystem subsequently approved by the Bank will be applicable to the operation.² The operation’s [Procurement Plan](#) and its updates will indicate which contracts will be executed using the approved country procurement systems.

Table 1: Threshold amounts for International Bidding and International Shortlist (US\$)

Method	ICB works	ICB goods and nonconsulting services	International shortlist for consulting services
Threshold	5,000	350,000	500,000

Table 2: Main Procurement Processes (US\$)

Threshold for Ex Post Review ³		
Works	Goods	Consulting Services
5,000,000	350,000	500,000

- 5.8 The procurement supervision method will be primarily that provided for in the validated country systems,⁴ with CORFO doing the monitoring, follow-up, and control of all the investment initiatives. In addition, the ex ante review of procurement will be used for contracts using the Bank’s procurement policies. The

¹ In December 2011, the Bank’s Board of Executive Directors approved the advanced use of Chile’s national procurement system in Bank-financed operations, and stipulated in paragraph 5.3 of the 2014-2018 Country Strategy with Chile the scope and thresholds established for Chile, which are currently: (i) US\$5 million for simple works; (ii) US\$350,000 for goods and services; (iii) US\$500,000 for consulting services; and (iv) no Bank-established threshold in the case of individual consultants. Over these amounts, contracting and procurement wholly or partly financed by the Bank must comply with the provisions set out in documents GN-2350-9 and GN-2349-9 or be entirely financed with the local contribution, in the event that the executing agency wishes to use only domestic legislation.

² In the event that the Bank validates another system or subsystem, that system will be applicable to the operation, in accordance with the provisions of the loan contract.

³ The thresholds established for ex post review are applied based on the executing agency’s fiduciary capacity for execution and may be modified by the Bank to the extent that that capacity changes.

⁴ Responsibility, support for review, and the methodology are described in the Ex Post Review of Procurement Guidelines document. The procurement plan will indicate which of the review methods will be used for each contract, i.e.: (i) ex post; (ii) ex ante; or (iii) the country system.

- technical relevance of the expense will also be reviewed ex ante by the sector specialist in those cases where this is indicated in the procurement plan.
- 5.9 The procurement supervision missions will adopt a preventive and ongoing monitoring focus on the evolution of the bidding processes, as well as the execution of the respective contracts, in accordance with the project supervision plan. Those procurement supervision visits will be completed with annual reports reviewing the procurement processes that will be performed by the program's external audit.
- 5.10 **Special provisions.** For the execution of Components I and III of the program, the borrower, through the executing agency, may use an IOA, understood as a legal entity under public or private law, authorized to sign consulting service contracts and contracts with individual consultants as needed to carry out activities financed under Component I. This use of the IOA under CORFO regulations is comparable to the "Procurement Agents" provided for in section 3.17 of document GN-2350-9 (hereinafter the "Consultants Policy").
- 5.11 The IOA will be selected in accordance with the provisions of the "CORFO Regulations on Intermediary Operating Agents" (Resolution (A) 29/2013 of the Executive Vice President of CORFO), and in accordance with CORFO policies and procedures. For its contracting, CORFO applies the policies and procedures of ChileCompra, duly validated time by the Bank, for the contracting of consulting services.
- 5.12 The IOA or IOAs selected will act under the mandate of CORFO, performing the above-mentioned contract monitoring, supervision, and administration, which will be carried out in accordance with CORFO-established policies and procedures. These are comparable to and compatible with those of ChileCompra, the advanced use of which has been duly approved by the Bank. Given the public origin of the financial resources to be transferred to the selected IOAs, the use thereof is subject to audit by the CGR. In all cases, both the selection of the IOA or IOAs and the contracting of consulting services and individual consultants through those agents will be subject to the scope of the validation of Chile's country systems approved by the Bank's Board of Executive Directors, as well as the provisions of section I of document GN-2350-9. The corresponding contracting done by CORFO and/or the IOA must be identified in the procurement plan.
- 5.13 **Records and files.** The documentation of procurement and disbursements processes will be kept at the offices of CORFO and the IOAs it designates for project execution.

VI. FINANCIAL EXECUTION AGREEMENTS AND REQUIREMENTS

A. Programming and budget

- 6.1 CORFO has resources from the government for its operations.
- 6.2 CORFO is a public agency organized under public law, with legal status, established under Law 6,334.

- 6.3 The programming, administration, and execution of the budget are carried out by the administration and finance office; in addition, its planning system is aligned with the annual plans of each of its programs.

B. Accounting and information systems

- 6.4 To control program resources, a special chart of accounts will be opened within CORFO's regular accounting in the SAP; and for the disbursements to intermediaries, the same procedures and mechanisms will be used.

- 6.5 The accrual accounting method is used; however, the accounting process for projects financed by the Bank is based on cash balance. The country practices and the International Accounting Standards and the International Financial Reporting Standards recognize them. The financial reports will be prepared and submitted to the auditors based on these regulations.

C. Disbursements and cash flow

- 6.6 The General Treasury of the Republic maintains and controls the General Treasury Account, which supplies funds according to the cash program, in accounts maintained by the institutions, which are autonomous in the administration of those accounts. At CORFO, payments are made using the SAP treasury module. The system has controls on the approval and authorization of funds. The disbursement methods that may be used include advances of funds, reimbursement of expenses, and, if necessary, direct payment to the provider.

D. Internal control and internal audit

- 6.7 The internal control system is based on CORFO's organizational plan, on strategic plans and operational and control procedures approved by the CAIGG, on administrative standards of ethics and probity, on Law 20,285 on transparency and access to public information, on legal, regulatory, and administrative provisions, on verification and evaluation mechanisms, and on internal audits. CORFO's internal control office advises the Executive Vice President on matters of internal control, reports to the ministerial auditor and the CAIGG, and has suitable personnel, procedures, plans, and work programs.

E. External control and reports

- 6.8 Independent auditors acceptable to the Bank will be used, including the CGR. The executing agency expressed interest in the CGR conducting the program's audits. Within 120 days of the close of every budget exercise of the executing agency and during the loan's disbursement period, the program's audited financial statements will be submitted in accordance with the terms of reference agreed upon with the Bank. The final report will be delivered within 120 days of the date established for the final disbursement of the loan.

F. Financial supervision plan

- 6.9 As the analyzed risks of the program are considered low, annual and final audited financial statements will be required as well as financial information in the semiannual reports. The external auditors will perform the ex post review of disbursements. The internal audit office will: (i) coordinate the responses to the observations of the external auditors; (ii) follow up on their observations; and (iii) perform its own audits and report to the Bank. The Bank will have prior

knowledge of the external auditors' audit planning, will make any necessary observations, will review the auditors' reports and work papers as it deems advisable, and will conduct desk reviews and financial and accounting visits to CORFO, based on the Risks Matrix for the Bank's portfolio in Chile. It will conduct training sessions for specialists in the program's financial management and for external and internal auditors.

G. Other financial management agreements and requirements

- 6.10 The program's financial statements will be prepared by the administration and finance office in collaboration with the PET.
- 6.11 CORFO will be responsible for timely fulfillment of the clauses and agreements of the loan contract and the program activities.
- 6.12 Disbursements requests will be numbered consecutively and approved by a designated staff member, whose signature is recorded at the Bank.
- 6.13 A current account will be established for the program's resources, which will be reconciled monthly.
- 6.14 The Bank will conduct financial training workshops both for CORFO staff and for internal and external auditors.
- 6.15 The semiannual progress reports will include follow-up on observations from audits and a reconciliation of the executing agency's accounts with the Bank's, as well as a report on the status of the guarantee fund.
- 6.16 The external auditors will perform the ex post review of procurement and disbursements.
- 6.17 Program resources may be used to finance taxes related to the program's activities.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/16

Chile. Loan ___/OC-CH to the Republic of Chile
Indigenous Development and Promotion Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Chile, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Indigenous Development and Promotion Program. Such financing will be for an amount of up to US\$40,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ _____ 2016)

LEG/SGO/CSC/IDBDOCS: 40254754
Pipeline No.: CH-L1105