

MEMORANDUM

February 23, 1989

TO: See Distribution

FROM: LAC/DR/SA, Lari Silverman *MS*

SUBJECT: (File - Strategy Statement and Action Plan FY 90-91
(Advance Distribution))

Attached for your review is a copy of the (File Strategy Statement and FY 90-91 Action Plan. Both documents are draft internal documents for review and do not necessarily represent the views of A.I.D.

The issues meeting will be held on Monday, March 20, 1989 at 10:00 a.m. in the LAC/IF Conference Room (2248 IS). The Action Plan review will take place on Wednesday March 22, 1989 at 9:30 a.m. in the same conference room. Please pass this copy to the person in your office who will attend the issues meeting and action plan review and request that written comments and/or issues be forwarded to Eugene Rando (Room 2252 IS, Tel. 275260) by C.C.B. March 15, 1989.

In order for the review to benefit from your inputs, please see that your staff adheres to the March 15 date for written comments/issues. Thank you.

Attachments: a/s

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LAC/BI, Thomas
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C H I L E

PART ONE - ADC SUMMARY STRATEGY STATEMENT

I. Overview

The Administrator's decision in April, 1988 to establish an Advanced Developing Country (ADC) program in Chile reflected a combination of factors, including an existing portfolio of A.I.D. activities in the absence of an A.I.D. presence, the country's progress towards the return to democracy, and Chile's developmental status. Chile aptly falls into the ADC category. Its population of some 12.7 million is 84 percent urban, relatively well educated, and compares favorably within Latin America in almost all indicators of well-being (literacy over 92 percent, infant mortality around 18 percent, life expectancy 71.5 years, over 90 percent of the urban population with access to electricity and water, a 1.6 percent population growth rate). The economy has grown well over five percent in real terms during each of the last three years and the per capita GNP reached an estimated \$ 1,525 in 1988 (albeit still below the 1981 peak).

More than any other country in the LAC region, Chile has embraced policies and programs to promote a market economy and a free enterprise model of development. The initial impetus for this approach came with the 1973 overthrow of a Marxist regime and the ideological commitment to undo Allende's pervasive statist economy. The Pinochet government adopted a monetarist approach to economic policy, championed by the "Chicago boys", a group of young, U.S. trained economists. The stabilization efforts and structural reforms initiated in 1974/5 to reactivate the private sector effectively put Chile on the road to market oriented modernization. However, inconsistently applied policies led to a severe setback in 1981-83. This recession, exacerbated by a global economic downturn and low copper prices, was one of the worst in Chile's history. Per capita income fell 20 percent in two years and open unemployment rose to one-quarter of the work force, despite public works projects that provided minimum employment for some 500,000 people.

The massive GDP reduction together with the corrective unpegging and devaluation of the Chilean peso devastated the private sector, which had incurred heavy dollar denominated debt. Many firms became insolvent and bank portfolios deteriorated rapidly in a business environment complicated by interlocking relationship between banks and corporations. In early 1983 the GOC was forced to take control of some of Chile's largest financial institutions and to liquidate others. A \$ 1.0 billion loss in international reserves quickly materialized in the following panic. The GOC eventually was required to provide a

substantial bail out program to help private firms and banks from going under.

At the beginning of 1985, a new economic team was appointed headed by yet another young, U.S. trained (Columbia) economist. A bold program was quickly set into place to extricate the State from all activities that could be better carried out by the private sector, create a stronger private sector through policies that would promote export-oriented or efficient import substitution activities, and improve social benefits through better resource management and targeting. Key achievements of the resulting program include:

- External Competitiveness - Although copper still predominates Chile's exports, its favorable trade balance rose to over \$ 2.1 billion in 1988, with a healthy mix of non copper products from the agriculture, forestry, and fishery sectors. In 1971, Chile was exporting 412 products to 58 countries and in 1988, Chile exported 1,343 products to 112 countries. The maintenance of a realistic exchange rate has been a fundamental reason for these achievements, but the GOC astutely aided this growth through legislative changes, production incentives, and an effective export promotion campaign. At the same time, a staged reduction of the tariff rates to a uniform 15 percent has encouraged greater competitiveness of industries directed at the local market.

- Financial Sector Reform - The GOC has established a new banking law, correcting many of the earlier deficiencies brought to light in the 1982-83 depression. The financial system is gradually regaining its strength and for the third year in a row has shown a narrow profit. Also, the 1980 reform of the social security system established a whole new pension scheme operated by privately run funds, which today manage over \$ 3 billion in savings. Through such measures, together with the emergence of an active stock exchange, Chile's capital market is on the verge of being able to play a significant role in resource mobilization for development.

- Debt Management/Reduction - Chile has successfully renegotiated its onerous external debt and has consistently fulfilled all its external obligations. It has pioneered the debt/equity conversion mechanism to achieve significant reductions in its debt burden. It has done this through programs: a) to allow Chileans to repurchase debt at a discount; b) to allow foreign firms to use debt for investment; and c) to repurchase debt directly by the Central Bank (some \$300 million in November, 1988). Since August 1985

the Chilean debt owed to private banks has been reduced by \$ 6.3 billion (some 40 percent of the original amount).

● Privatization - The GOC is committed to an extensive, privatization program. The program has its basis partly in the ideological reaction against the statist orientation of the previous regime together with the conviction that the private sector is more efficient in the management and operation of the facilities. Privatization also generated revenue for the central government and permitted the enterprises affected to raise funds outside of the IMF limits on borrowing. In recent years, Chile's privatization program also included efforts to broaden the base of ownership in order to generate greater support for the private sector model through "popular capitalization". The program has already covered enterprises in telecommunications, electric power, steel, fertilizer, banking, pharmaceuticals and sugar. Additional programs are being considered in petroleum, copper smelting, airlines, transportation and other sectors. While some mistakes undoubtedly have been made in the process, the intensity and scope of the GOC's privatization efforts have been notable and serve as a bench mark for Latin America. (For additional assessment of Chile's privatization program, see the October, 1988 report in "Privatization in Chile" prepared by Paul Elicker of the Center for Privatization).

● Investment Promotion - The swap mechanism for converting debt to equity investments has provided a powerful incentive for foreign investors already in Chile to increase their local holdings as well as to attract potential new investors. The privatization program has also been used in conjunction with swaps to promote foreign investment. By and large, these capital movements have not represented a major increase in net new foreign investment. Nonetheless, Chile has been able to attract foreign investment outside of these innovative mechanisms. In recent years, the level of net new foreign investment has ranged from \$ 100 - 200 million annually, still below Chile's requirements. But substantial increases are already scheduled for 1990 and beyond, particularly in the mining sector. These investors frequently cite as important reasons for the interest the GOC's businesslike manner in responding to inquiries, minimal paperwork requirements, the absence of corruption, and the overall sound economic management.

Despite these achievements on the economic front, on October 5, 1988 a strong majority (54 percent) voted against the continuation of the Pinochet regime for another eight

years. Chileans now will be going to the polls in December 1989 to elect a new President and, for the first time in 16 years, a Congress. Analysts conclude that factors behind the outcome of the October plebiscite include economic as well as political. One reliable poll found that economic considerations entered into the decision process of 72 percent of those who voted against the continuation.

Yet, there is little question that the well being of the Chilean populace is better today than when the GOC took power in 1973. Part of the popular dissatisfaction with economic conditions is perhaps caused by the comparison to the better conditions of the boom year in 1981 and lingering bitterness about the hardships of the depression of 1982/83. The basis for the discontent must also lay in the perception by many that they have not shared in the country's economic prosperity to the degree they feel entitled.

II. Overall Goals and Objectives

The dominant U.S. concern in Chile is the country's full and lasting return to a working democracy. The ADC program will support and enhance Chile's democratic transition by its limited resources focussing on two immediate objectives :

- Promotion of strategic democratic initiatives; and
- Improvement of the social responsiveness of the Chilean private sector.

A.I.D. support for democratic initiatives in Chile began in FY 1988 with its financing of the activities of the National Endowment for Democracy (NED) and the voter education campaign carried out through CAPEL of the Interamerican Institute for Human Rights. These activities were highly successful. More than 97 percent of the total registered population cast their vote in the October plebiscite. The voting and vote counting process was peaceful and a minimum number of votes were invalidated or disqualified.

As the country moves into the next phase of the democratic transition it will be important to continue the voter education program and channell it into more specific civic education functions. It will also have a lower profile since the political parties (and therefore partisan positions) will necessarily play a more important partisan role during the 1989 presidential and congressional elections. During this phase, a basis for institutionalizing civic education under the new, democratically elected government will be developed. Civic education through private groups will continue to be a component of the A.I.D.'s democratic initiatives in Chile until this function is absorbed by Chilean educational institutions and other appropriate entities.

Chile's Congress will be convened in March of 1990 after a 16 year absence. The numerous daily chores of managing a legislature will be largely unknown to Chile's next generation of legislators and legislative staffers. Moreover, dramatic changes have occurred in the communication and information sciences during the last 20 years. Any hiatus in the legislative process would tend to denigrate the transition. To help support Chile's efforts to have a productive, smoothly functioning legislative body, the democratic initiatives in Chile will also assist with the development of a non-partisan, university based, center to provide research, training, and consulting services to the Chilean Congress during its crucial start up period. This center will be available to provide similar training and services to local and municipal representative bodies as they are established and evolve during the decade ahead.

Before 1973, Chile had a comparatively strong legal system with professional jurists distinguished by independence, competence, and adherence to ethical standards. The GOC has supported some of the traditional strengths of the system. Judicial salaries and the security of tenure, for example, continue to be good by South American standards, and certain courts, especially the civil courts handling business cases such as bankruptcy, have modern technology. The last 15 years of military rule, however, have taken a toll on the judiciary. The judicial personnel system has been used to punish judges who dare pursue human rights violations, and the actual jurisdiction of ordinary civilian courts has been significantly reduced. In addition, certain courts, such as those handling criminal cases in Santiago, are understaffed, subject to long backlogs, and generally underfunded.

Since 1973, a relatively small number of judges and lawyers have remained firm in their own commitment to the ideals of justice. They fought against the erosion of civilian jurisdiction, took on the hard cases, and suffered the political consequences of those actions with their families. Both the judges' and bar associations in Santiago have been under the leadership of groups of such individuals in recent years, and the Embassy (through USIS) has been encouraging their development of programs to strengthen professionalism and to support the transition to democracy.

Last year, in order to offer assistance to these organizations notwithstanding the prohibition on utilization of ESF in Chile, ARA proposed an amendment of the appropriations bill to enable administration of justice activities in Chile under subsections 534(b) (4) and (6) "to develop a national consensus on the importance of an independent judiciary and the administration of justice generally in a democratic society". It was enacted in September, 1988. Accordingly, a small administration of justice activity is planned in FY 1989 to support the efforts of the judges, lawyers and academicians who have

been providing leadership on this issue. This initial effort, will provide the diagnostic analysis and identification of priorities that would be useful in the consideration of larger administration of justice programs once a new democratic government is in office.

These three democratic initiatives to begin in FY 1989 are all directed at influencing specific institutional objectives that can be pursued by the democratic administration to come into office in March, 1990. At that time, under a more politically open regime, it will also be appropriate and necessary to support individual small scale, grass-roots examples of democratic action to complement the institutionally oriented programs to begin this year.

Improvement of the private sector's social responsiveness is the second of the ADC program's twin objectives in Chile because economic policy will be one of the central issues of the democratic transition. It is clear that the GOC's adjustment with growth program has failed to prevent the polarization of Chilean society. There is a modernized segment, which is internationally attuned, economically-oriented, self-confident, and prepared to ride the crest of further economic expansion. And there is the segment, estimated by some to be as high as four million, that is represented by the families of unskilled or semi-skilled workers, with underemployed youth becoming increasingly frustrated and living in dwellings crowded by the arrival of homeless relatives.

The GOC has attempted to reach the "extreme poverty" element of this latter segment through better targeted redistribution approaches without distorting the free market model. Some very innovative direct subsidy programs, including a "family" subsidy payment and low income housing subsidy, have been implemented at great financial cost. Nevertheless, the World Bank estimate that real expenditures in 1987 on education, health and housing had still not reached the 1981 levels; further, real outlays on health were almost a fifth below the 1981 peak. The World Bank is currently undertaking a study of Chile's poverty situation that should help clarify the effectiveness of some of the GOC's targeting efforts and identify options for increasing the spread of development benefits.

Meanwhile, the debate has already begun on whether the country's prosperity can be more equitably shared. The incoming elected administration will have a mandate to address social concerns. Thanks to record copper prices, it will also have greater fiscal flexibility with which to deal with the equity question, at least during its initial years in office.

There appears to be a consensus in the mainstream of Chile's political thought that the free enterprise model must be

maintained to guarantee Chile's continual modernization and economic progress. However, the pressures for adjustments and the addition of controls to the model in favor of greater equity will grow. In this regard, Chile's generally conservative business community will find itself under increasing question about its role in a democratic society. The business community will either become interactive and help present solutions consistent with the free enterprise model or will withdraw and become more defensive. The first reaction will help pre-empt the return to a government-led approach that would likely encourage a return to fiscal irresponsibility. The second reaction would prompt such a result and could help destabilize the democratic transition.

If Chile's private sector model is to survive and thrive under a democracy, it must be able to demonstrate that it has the capacity to address social issues and public concerns more directly. The ADC objective, then, is to identify and assist those progressive elements within the private sector that are willing to take the lead in this area. Such elements will include business associations and support organizations, foundations, and the training and academic community that services the business sector. The strategy will not be to seek contributions or programs based on a charitable approach. Rather, the activities to be selected will promote the understanding among the business community that it has a vested self-interest in sharing the benefits generated by Chile's free enterprise model. They will also demonstrate to the public at large a growing private sector willingness and capacity to deal with social and other issues directly related to the well-being of the country.

Finally, the success of Chile's private sector model has not enjoyed legitimacy within much of Latin America because of the authoritarian regime under which it has been carried out. If the model becomes widely ratified within a democratic Chile, it will be a valuable example for A.I.D.'s work in other countries.

III. Principal Program Activities

A. Democratic Initiatives

The LAC/Democratic Initiative Office will finance three activities in Chile: civic education; a legislative research and studies center; and a small administration of justice effort.

The civic education activity will be implemented through an AID/W grant to the Interamerican Institute of Human Rights (IIHR) in Costa Rica. It will build on the experience gained during the FY 1988 voter education project to establish the basis for a permanent, institutionalized program of civic education in Chile. The IIHR will work

through a local NGO that in time will be expected to develop a close working relationship with civic leaders and education sector authorities in the elected government. The program will be incremental in nature. Each year's activity will be dependent on the evolution of the political environment and constant assessment of the pace at which institutionalization can proceed. Currently, a four year time frame is envisaged with an initial increment of \$470,000 in FY89 and a LOP level of \$2.0 million.

The legislative research and studies center will be implemented through an AID/W grant to the State University of New York (SUNY), at its Nelson A. Rockefeller College of Public Affairs and Policy located on the Albany Campus. SUNY-Albany, in turn, will work with the Catholic University of Valparaiso which has established a multi-disciplinary Center for Legislation Research and Support. Valparaiso is the site of the new Congress Building currently under construction. A three year program is planned, with a LOP tentatively planned at around \$900,000 of which \$500,000 will be financed in FY 89.

The administration of justice activity will be implemented through a field issued grant with a local NGO think tank already working in judicial studies and training. The \$200,000 grant is for an 18 month period and is designed to promote better understanding and consensus on the importance of an independent judiciary. This activity also will provide the basis for considering future work in this area probably in FY 1991 under a democratically elected government.

B. Improvement of the Social Responsiveness of the Private Sector

The resources provided under the Inter-Country Technology Transfer (ITT) project for Chile's ADC program will be directed almost exclusively at improving the private sector's involvement and participation in Chile's principal social concerns. At this preliminary stage in the development of a new ADC portfolio, a number of discrete activities have been tentatively identified. For purposes of presentation, they are clustered in the categories set forth below. The individual activities within each category are at varying degrees of preparation. Their estimated funding levels are subject to further design work.

- Outreach to Small and Medium Business - This group of activities will mobilize the voluntary contribution of time, talent, energies, and financial resources of successful businessmen and women in assisting the small and medium business community. It will focus on job generation through the promotion of commercially viable business activities. The FY 1988 grant of

\$300,000 to the U.S. PVO, Accion International, to help Chilean business leaders to establish a local foundation in Santiago to assist micro-enterprises with credit and technical assistance fall into this category. A second activity is planned to assist the Chamber of Production and Commerce in Concepción, Chile's second largest urban center, to establish a volunteer executive service and an employee training center for Concepción's small and medium sized enterprises. During FY 1989 technical assistance and observational travel will be financed with ITT resources (about \$30,000). Subject to satisfactory progress on design, an activity agreement could be formalized in FY 1990 in the approximate amount of \$300,000. A third activity, to be initiated in FY 1989, will establish a capacity within a prestigious private sector foundation (Fundación Chile) to promote technology related joint ventures between progressive, medium size Chilean enterprises and U.S. firms. The activity will help mobilize substantial amounts of risk capital for the development of productive, export oriented industries particularly in agriculture, forestry and fisheries. Fundacion Chile considers that these sectors also offer the best opportunity to stimulate replication of successful ventures by local private enterprises and individual producers of raw material. This activity will also serve to demonstrate the venture capital function of a free enterprise system - one that is yet lacking in Chile. The estimated LOP funding for this three year activity is \$400,000, all of which will be provided with ITT resources. A fourth activity, to be developed in FY1990, will be a Women-in Development (WID) program that will mobilize collaborative arrangements between enterprises and community level family groups to permit value added work to be carried out at the household or community level at fair labor rates. The program will be operated by women managed organizations and WID matching funds will be sought. The ITT resources will promote a total of about \$200,000 during this three year activity.

● Worker Betterment - The labor sector is perhaps the group with the highest expectation of the benefits from the return to democracy. Under the military regime the power of the union was diminished. Communications between management and labor during the last 15 years have been poor to nonexistent. The ADC program will address this concern principally through education activities. The individual activities will be developed with the participation of the Embassy labor attache and the AIFLD country director. Opportunities to coordinate with various USIS sponsored events will also be sought out.

One of the key activities will be to assist Catholic University's School of Economic and Business Administration to train enterprise managers and owners in modern labor relations practices designed to bring about better understanding and response to worker needs. Catholic University will reach the business community directly through short term extension course and a new evening program in human resources program. Its undergraduate program in human resource management also will be expanded significantly and applied research will be undertaken in labor-management relations and labor economies. The estimated LOP funding under these three activities is \$600,000 of which \$200,000 will be provided for the FY 1989 ITT allocation.

The second focus under this category will be to increase worker productivity and earnings capacity through improving the quality of skills training. During FY 1989 the ADC program will work closely with the LAC/DR/EST regional vocational education project to assess options for future inputs. At the post secondary level, the principal focus will be on the National Confederation of Chambers of Production and Commerce which recently has been charged by the GOC to administer INACAP, the national institute of professional training. INACAP provides skills training as requested by individual enterprises for their employees (drawing on GOC subsidies for this purpose) as well as regular classroom courses in a wide variety of subject matters. The response of the private sector through its National Confederation of Chambers of Production and Commerce in taking charge of Chile's largest technical training facility will be an important demonstration of its willingness to collaborate on a major social concern. Other private sector training efforts will also be examined, including the technical high schools that have also been turned over to the private sector for administration. For this purpose, in FY 1989 \$100,000 of ITT funds are planned for consulting services, observational visits, studies, etc. As specific subactivities are identified, it is expected that ITT inputs will continue during FY 1990-91 at about this same annual level. Additionally, the resources to be made available to Chile under the LAC regional ADC training project (about \$100,000 annually) will be used to support vocational education and technical training.

A possible future activity under this category will be directed at labor in the rural area, particularly agro-industries involved in fruit export and the forestry sector. Seasonal labor shortages are

beginning to appear in these activities. A program designed to improve labor-management relations, similar to the one described above with Catholic University for the urban sector, could become very timely. Subject to additional assessment, \$300,000 of ITT funds are tentatively planned for such an effort with initial increments in FY1990.

● Social Interest Housing - Low income housing warrants a separate mention in the ADC strategy because of the special relationship that A.I.D. has with Chile's private, democratic cooperative housing movement. A \$55 million Housing Guaranty (HG) in the mid 1970's helped the cooperatives not only survive, but to play an important role in the GOC's social interest housing program despite a general policy framework against cooperatives. More recently, a \$5 million HG was provided in 1988 that increases the working capital of the cooperative housing movement. These funds will be fully drawn down before the end of FY1989 and all planned targets are expected to be met.

Low income housing has been a fundamental element in the GOC's social outreach through its housing subsidy program. IBRD financing is supporting this program. Any new government will likely continue the subsidy program in one form or another because of its popularity and high visibility.

The ADC program will focus on the role that the housing cooperative movement can play in improving the social content of Chile's housing program. An active housing cooperative movement can lobby effectively with sector officials and elected representatives for approaches that do not slip back into inefficient, costly, State operated programs. In addition, responsible housing cooperatives at the base level can work collaboratively with local government officials to fill the vacuums created after 16 years of authorization rule.

The ADC program is providing \$30,000 of ITT funds to the cooperative movement to carry out a study that will help determine how best to : (a) address the needs of the lowest income segment of the population who are not able to participate in the GOC housing program because of their inability to meet savings requirements; and (b) mobilize a large savings pool of Chile's expanding capital market for the needs of the cooperative housing movement. This study could possibly serve as a basis for a follow-on HG in late FY1989 or early FY1990. It is also planned to investigate the possibility of resuming a Section 416 program, probably in FY1990, that would be fully monetized for low income, self-help housing

activities. Chile has developed a proven track record in the 1980's to manage 416 food aid effectively. These levels would be supported by small amounts (\$15,000-\$20,000) of ITT and/or regional training funds for project development and support type activities.

● Broader Societal Concerns - The categories described above address activities that would spread benefits to specific groups (e.g., small entrepreneurs, workers, and homeowners). In addition, the private sector should address broader concerns that can benefit society or the economy as a whole.

The American-Chilean Chamber of Commerce (AMCHAM), for example, has started its own effort to generate greater public awareness about Chile's environmental pollution and natural resources degradation problems. Through its relationship with Chilean firms, universities and government, AMCHAM can promote a collaborative approach to addressing Chile's pressing environmental problems. It is planned to provide AMCHAM with \$100,000 of ITT funds in FY 1989 to promote its environmental awareness efforts. A large portion of this amount will be used by AMCHAM to support a major conference to be organized by a local environmental studies center (CIPMA). The August, 1989 conference will help identify priorities and strategies for future A.I.D. inputs in this area.

Similarly, the ADC program will seek out opportunities to promote greater interface between Chile's private sector and its scientific and research community. The private sector will be encouraged to support the growth and development of Chile's indigenous research capacity as part of its responsibility to contribute to the continued economic progress under the free enterprise model. Specific activities and funding levels remain to be determined. However, the PSTC programs of the A.I.D. Office of the Science Advisor represent a potential resource as does the program for A.I.D./Israeli scientific collaboration.

Population concerns are also grouped under this category. In population, the ADC program will focus on policy dialogue to help the new democratic leadership understand the implications of population growth on employment needs and on environmental degradation - two concerns that should be shared by the private sector. Small amounts of ITT resources will be required in FY1990 and beyond (perhaps \$100,000 annually) for buy-ins to centrally funded programs to promote policy dialogue in environmental and population analysis.

C H I L E

PART TWO - FY 1990/91 ACTION PLAN

I. Program Description

Even before the start-up of the ADC office in late FY 1988, significant A.I.D. inputs were being made in Chile. These activities carry residual monitoring responsibilities and/or provide institutional bases for future ADC programs. In FY 1988:

- a \$1.285 million grant was made with LAC/Democratic Initiatives funding for a highly successful voter education campaign, which is now completed.
- a \$5.0 million Housing Guaranty was extended to Chile's private, democratic housing cooperatives; it will be fully drawn down before the end of FY 1989.
- Approximately \$1.3 million in Section 416 food aid was provided to Chile's voluntary agencies to work in low income neighborhoods; shipments have been completed, but distribution is still underway. (Since 1983 some \$45 million in Section 416 commodities has been donated to Chile, principally for the GOC's school feeding programs).

In addition, through regionally or centrally funded programs A.I.D. has been supporting in recent years:

- an AIFLD presence to work with free, democratic labor unions (at about \$250,000 annually);
- scientific research through the Office of Science Advisor's Program in Science and Technology Cooperation (six approved PSTC's totalling over \$625,000);
- family planning delivery (over \$500,000 annually in support and supplies to the local IPPF affiliate) and population research (an estimated \$100,000 annually); and
- disaster relief (over \$8.0 million since 1982, including a \$1.0 emergency shelter program) and disaster preparedness training and equipment (over \$700,000).

Within this context, the ADC program in Chile started receiving funds under the Inter-country Technology Transfer (ITT) project during the last quarter of FY 1988 and is formally initiated with the presentation of this Action Plan and its accompanying Summary Strategy Statement.

The principal use of the FY 1988 ITT funds was for a \$300,000, three year cooperative agreement with the U.S. PVO, Accion International /AITEC. Accion is assisting the development of a private, non-profit corporation (PROPESA), recently established by prominent Chilean businessmen to provide credit and technical assistance to micro-enterprises. The A.I.D. funds will be used for training and the consultants for PROPESA's staff and for start-up operating cost. The PRE Bureau also authorized the use of \$100,000 of its guaranty authority to Accion to support the mobilization of local credit resources for the Chile micro-enterprise program. PROPESA opened for business in late 1988. There has been a strong demand and the results, although too early to evaluate, are very promising.

Most of the balance of the FY 1988 ITT funds (\$36,000) were used to support the July, 1988 Pan American Conference in the "Private Sector and Free Enterprise in the Development of Latin America" sponsored by the Chilean Manufacturing Association, SOFOFA. The conference was widely covered by the local media and it was generally considered successful in its objective of sparking greater discussion and dialogue in the Chilean business community about its role in the coming democracy. The conference proceedings have been published. The small remainder of FY 1988 ITT funds (\$14,000) financed short term training on population demographics; the last participant will return in June, 1989.

In FY 1989 and beyond, the ADC program will concentrate on the two objectives set forth in the Summary Strategy Statement: democratic initiatives; and increased social responsiveness of the private sector. The democratic initiatives component of the ADC program will work initially in three areas beginning in FY 1989: a year civic education program, drawing on the successful implementation of last year's voter education effort; a legislative research and studies center to assist the new Chilean Congress; and an administration of justice activity to promote better understanding and consensus on the importance of an independent judiciary. An additional activity may be added in FY 1990 to support grass roots level experiences in democratic principals. Activities under the ADC program component directed at improvement of the social responsiveness of the private sector are clustered in four categories: outreach to small and medium business; worker betterment; social interest housing; and broader societal concerns (e.g., environment, research, population).

The first component will be financed from the LAC regional democratic initiatives program. The second component, directed at the private sector, will be financed principally through the ITT project and the LAC regional participant training program. A.I.D.'s Housing Guaranty and Section 416 programs will also be considered as possible sources for this component.

Similarly, the ADC program will draw on cost sharing approaches such as those available from PRE and PPC/WID to extend its limited resources. Moreover, as the new ADC program evolves, opportunities will arise to influence the use of centrally financed research and matching grants in ways more consistent with strategy objectives. It is too soon, however, to cite concrete examples of how cost sharing and other centrally funded resources will be specifically used by the ADC program. Accordingly, these sources have not been quantified in the tables that follow.

STANDARD FORM FOR PROVIDING INFORMATION ON OBJECTIVES

1. SUMMARY FUNDING TABLE

Objective # 2 (As adapted for Chile: Improve the social responsiveness of the private sector)

<u>Activity</u> (all new)	<u>LOP Funding</u>	<u>FY 89</u>	<u>FY 90</u>	<u>FY 91</u>
1. Outreach to Small and Medium Business (a)	900,000 - ITT	150,000 .	350,000	300,000
2. Worker Betterment	1,200,000 - ITT (300,000- LAC Training)	300,000 (100,000)	450,000 (100,000)	450,000 (100,000)
3. Social Interest Housing	(5,000,000 - HG) (2,000,000 - 416)	(5,000,000) (b) -	- (1,000,000)	- (1,000,000)
4. Broad Societal Concerns	700,000 - ITT	120,000	290,000	290,000
5. Program Development and Support	160,000 - ITT	69,000	55,000	36,000

(a) Does not include \$ 300,000 in FY 1988 ITT funds for microenterprise and related \$ 300,000 guarantee authority from PRE to Accion International.

(b) Possible postponement to FY 90.

II. Program Implementation by Objective - CHILE

STANDARD FORM FOR PROVIDING INFORMATION ON OBJECTIVES

1. SUMMARY FUNDING TABLE

Objective # 12 (Strengthen democratic institutions)

<u>Activity</u>	<u>LOP Funding</u>	<u>FY 89</u>	<u>FY 90</u>	<u>FY 91</u>
1. Voter Education (N)	2,000,000	470,000	500,000	500,000
2. Legislative Studies Center (N)	900,000	500,000	400,000	-
3. Administration of Justice (N)	200,000	200,000	-	-
4. Grass Roots Democracy (N)	200,000	-	100,000	100,000
5. Administration of Justice II, (N)	500,000	-	-	500,000
6. Program Development and Support	20,000	3,000(a)	17,000	-

(a) Includes \$ 1,000 of EHR funding. All other amounts are from LAC/Democratic Initiatives DA or ESF funds.

2. ACCOMPLISHMENTS

a. Actual for FY 1988 and Early 1989

● Democratic Initiatives

The \$ 1.285 million voter education campaign for the October 5, 1988 plebiscite was successfully carried out, with a record registration and a turnout exceeding 97 percent. The results of this activity far exceeded initial expectations. Voter education activities were carried out peacefully during 1988 without government intervention; public debates and other open activities were well attended all over the country with people defending both sides of the plebiscite options; and most important, the Chilean people regained their trust in the democratic electoral process. A detailed evaluation of this program activity was carried out in December, 1988 under an IQC. Shortly after the plebiscite, the LAC/Democratic Initiatives Office organized a field mission to Chile to assess the potential for additional democratic initiatives activities. The team identified three new activities in civic education, legislative studies and support, and administration of justice.

● Social Interest Housing

A \$ 5.0 million HG was extended in 1988 to a coalition of Chilean housing cooperatives and NGO's. As of December 31, 1988 almost \$ 2.0 million has been drawn down from the U.S. lender. RHUDO/SA continues to provide periodic TDY monitoring. In September, 1988 the Chilean housing cooperatives requested A.I.D. co-financing of a study to determine how the cooperative movement might tap into existing local financial mechanisms to take advantage of the market liquidity generated by the private pension funds. At A.I.D./Chile request, RHUDO/SA provided technical assistance to revise and expand the scope of the study to include assessment of possibilities to assist lower income groups than currently being served by the cooperatives, such as those involved in self-help construction. The three month study should be initiated in March with \$ 30,000 of A.I.D. funds from the ITT project.

● Small and Medium Business Outreach

During the last quarter of FY 1988 \$ 300,000 of ITT funds were obligated through a cooperative agreement with the U.S. PVO, Accion International to support a microenterprise program in Chile. Accion's local affiliate, PROPESA, was organized earlier in 1988 by a group of prestigious businessmen leaders. PROPESA inaugurated its activities on October 25, 1988 at a ceremony attended by the AA for LAC and Ambassador Barnes. Demand for PROPESA's services has proven to be strong - over 100

2. ACCOMPLISHMENTS

a. Actual for FY 1988 and Early 1989 (Continued)

loans were made by the end of December. Equally important, as evidenced during a January visit by Ambassador Gillespie, the members of PROPESA's Board have become enthusiastic supporters of the program and are clearly committed to its success and expansion. In addition, progress was made on the design of the activity with the Concepcion Chamber of Production and Commerce during a meeting with PRE officers in AID/W, the manager of the Chamber, and the A.I.D. Representative. Based on these and subsequent discussions, PRE will provide follow up technical assistance from the SBA-SCORE program to help complete project development.

b. Key Activity/Program Accomplishments Planned for Action Plan Period (FY 1989 - FY 1991)

Quarter/Year

- Obligation of the three initial activities in democratic initiatives Second/FY89
- Obligation of all ITT FY89 funds for initial activities Third/FY89
- Completion of social interest housing strategy Fourth/FY89
- Completion of system design for managing participant training First/FY90
- Completion of WID assistance strategy First/FY90
- Update design of ADC program with new GOC administration Second/FY90
- Evaluate completed administration of justice activity and design follow-on First/FY91

3. NARRATIVE:

The democratic initiatives objectives of the ADC program in Chile are based on three sets of activities that reflect substantial prior Embassy involvement in the identification of the institutions and individuals to be assisted. The activity suggestions were reviewed and refined by a specialized field team. The resulting mix of activities in civic education, legislative studies and support, and administration of justice addresses key elements of the democratic transition. The Embassy and A.I.D. have been concerned with and are aware of the potential political sensitivities of working in this area. The design of each activity has been reviewed from such a perspective and satisfactory conclusions reached on the ability to implement the activities in ways that minimize concerns. In this regard, the December, 1988 evaluation of the voter education campaign, financed by LAC/DI, provide a useful commentary on the ability to work in such sensitive areas. A.I.D. will continue to work closely with the Embassy on these.

The balance of the ADC program is clustered under the strengthening of the private sector. In the case of Chile, macro-economic policies and GOC programs already favor the private sector to a degree perhaps unmatched within Latin America. The private sector is responding very well in terms of economic growth. At this stage, the concern is whether the spread of benefits under Chile's free enterprise model will be sufficient to assure its continuation under the coming democracy. Accordingly, the objective of strengthening the private sectors in the context of the Chile program translates into improving its social responsiveness.

All ADC activities other than democratic initiatives are clustered under this modified private sector strengthening objective, including activities that also are directly related to other LAC Bureau-wide objectives such as housing and environment. Thus, even proposed activities that could be identified under these other objectives will be assessed in terms of their ability to demonstrate the social responsiveness of the private sector.

Because the ADC program in Chile is in the start-up process with the individual activities essentially in the design stage, the planned accomplishments focus on the process type achievements related to program initiation rather than output accomplishments for specific activities. Moreover, given the nature of the program objectives in Chile, as is probably true for most ADC's, the process indicators are the most appropriate measures.

For example, the administration of justice activity has certain output targets that can be defined in terms of numbers of judges trained, seminars held, reports written, etc. But the real measure of success will be whether or not the judges have been able to maintain and strengthen their sense of cohesiveness and, at the same time, promote a wider understanding and consensus about the importance of an independent judiciary.

3. NARRATIVE: (Continued)

Similarly, a number of specific targets can be established for the FY 1988 micro-enterprise activity in terms of enterprises assisted, jobs created, etc. But from the perspective of overall program objectives, the measurement of success should be more in terms of how well the activity has served as an example of a philanthropic outreach (albeit, with vested self-interest) by Chile's business leaders for social and economic development.

Two types of conceptual problems arise: (a) how is the achievement of the process type objective best measured; and (a) can the activity outputs be adequately linked to achievement of the process objectives. Another, more practical problem arises in the question of how much should be expended on dealing with these issues when the activities themselves involve relatively small amounts of A.I.D. funds (\$ 200,000 and \$ 300,000 respectively in the above examples). In any event, A.I.D. Chile would welcome constructive inputs on the definition of practical, measurable definitions of objective achievements for its program as currently envisaged.

III. Food Assistance

The Section 416 Program in Chile began early in 1983, during a period of abrupt and severe economic decline. The commodities initially supported PVO activities that had continued to receive Title II donations after closing of the A.I.D. Mission in May, 1981. Initiation of a Government-to-Government project soon followed assisting well-established MCH and school feeding activities.

With emergency help during natural disasters in 1984 and 1985, and renewal of the initial 416 assistance, commodity commitments reached:

	US\$
FY83	9,500,000
FY84	10,900,000
FY85	15,900,000
FY86	16,700,000
FY87	13,600,000
FY88	1,300,000

The reduction of the program level in FY 1988 reflects the unavailability of non-fat dry milk and the subsequent curtailment of the Government-to Government project. No imports are currently planned in FY 1989.

CRS and ADRA, U.S. PVO's, are the nominal sponsors in the current private 416 Program, though Caritas/Chile and OFASA, Chilean voluntary agencies, implement the activities with little help from their American counterparts. An evaluation of the 416 program prepared in late 1987 stated the following:

"The Chilean PVO's, who monitor food distribution to centers operated by other local agencies, perform effectively the management role usually handled by U.S. PVO's in other programs... All of the activities supported with Section 416 commodities are well-established, meet the statutory requirements to feed needy people, and include appropriate complementary services."

AID/Chile considers that the excellent Chilean administrative and technical capacity to manage a 416 represents an opportunity to encourage innovative ways to respond to the needs of the urban poor. Specifically, the 416 program will be considered as a possible resource for low income housing through monetization. Subject to additional study (including the housing study now underway), a program level of \$ 1.0 million annually is tentatively envisaged.

IV. Training

A country training plan update cannot be provided at this time because of the newness of the Chile program. No CLASP or ADC training has yet been carried out in Chile, nor has AID/Chile had the opportunity to fully develop a strategy. The intent, however, is to focus on short term training of trainers in vocational education and skills instruction. About 80 percent of the resource level, planned at \$ 100,000 annually) will be used in this manner for technical training in the U.S. of between 28-180 days. Appropriate "Experience America" activities will be included. The balance may be used to support attendance at seminars and workshops, particularly A.I.D. sponsored, of one week to one month. Finally, the training program will be organized and administered in a way that will generate participation and support of private sector organizations such as AMCHAM and local foundations.

V. Management

In addition to program start up, substantial effort was directed in the last quarter of FY 1988 and the first half of FY 1989 to the administrative tasks of establishing the A.I.D. Office. Two former USAID FSN employees have been brought on board - a DH accountant and a PSC program specialist. In addition, three FSN PSC's have been hired as administrative assistant, secretary and driver/manager. As individual strength and weaknesses can be better assessed, training plans will be developed for this staff as appropriate. *messenger*

The A.I.D. Office will also hire a dependent spouse (non-A.I.D.) on a full-time basis during the third quarter of FY 1989. Competitive review procedures will be used by a selection committee and the contract will be negotiated by the RCO/Quito. Based on a budget review made by the Regional Executive Officer and the Regional Controller USAID/Quito, an o/e budget increase was requested and approved in FY 1989 to permit funding of this position.

This position will be used chiefly to support the A.I.D. Representative in the design and implementation of the sensitive democratic initiatives portfolio, for participant training, and selected other activities such as WID and population. As the precise distribution of workload evolves with experience, the possibility of transferring the funding of this position to one or more of the program accounts will be considered.

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Only one of the democratic initiatives activities is currently scheduled for field obligation - the \$200,000 administration of justice activity for which a PIO/T has already been prepared. AID/Chile will try to use add-ons wherever appropriation to reduce its administrative burden. The planned activities in environment and population will likely be handled by add-ons. The balance of ITT funded activities will be managed through field issued grants.

In this regard, the ADC program will be adding to the workloads of the Regional Contracts Officer and the Regional Legal Advisor in Quito and the Regional Executive Officer and the Regional Controller in Lima. Funds will be included in the FY 1990 budget for their periodic travel to Santiago. However, based on the experience to date, AID/Chile is very concerned that arrangements be made to assure adequate backstopping capacity by the Regional Contracts Officer and the Controller to permit TDY services as necessary for not only timely services but also on site supervision and staff training and development.

AID/Chile will continue to draw on the regional environment officer for South America and the RHUDO/SA office for technical support in project design/monitoring assistance. Similarly, backstopping services from the LAC/DR/EST regional vocational education project and PRE will be called on. The ADC participant training project will provide an added burden on the A.I.D. Office in Chile that will have to be carefully assessed during the design of that project. At this point it is too early to determine how best to administer the added workload but various options will be considered, including the use of a local agent.

VI.

SUMMARY PROGRAM FUNDING TABLE

<u>Account/Project</u>	<u>FY 89</u>	<u>FY 90</u>	<u>FY 91</u>
ARDN			
1. ITT	-	180,000	150,000
2. Training	-	-	-
3.	-	-	-
Subtotal	<u>-</u>	<u>180,000</u>	<u>150,000</u>
POP			
1. ITT	-	100,000	100,000
2. Training	-	-	-
3.	-	-	-
Subtotal	<u>-</u>	<u>100,000</u>	<u>100,000</u>
HE			
1. ITT	-	-	-
2. Training	-	-	-
3.	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>
Child Survival Fund			
1. ITT	-	-	-
2. Training	-	-	-
3.	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>
EHR			
1. ITT	320,000	400,000	511,000
2. Training	100,000	100,000	100,000
3.	-	-	-
Subtotal	<u>420,000</u>	<u>500,000</u>	<u>611,000</u>
PSEE			
1. ITT	320,000	465,000	415,000
2. Training	-	-	-
3.	-	-	-
Subtotal	<u>320,000</u>	<u>465,000</u>	<u>415,000</u>
ESF			
1. AJDD	1,172,000	1,017,000	1,100,000
2.	-	-	-
Subtotal	<u>1,172,000</u>	<u>1,017,000</u>	<u>1,100,000</u>
TOTAL			
1. ITT	640,000	1,145,000	1,176,000
2. Training	100,000	100,000	100,000
3.	-	-	-

IMPROVING SOCIAL RESPONSIVENESS OF PRIVATE SECTOR

	<u>Account</u>	<u>LOP</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
<u>Outreach to Small and Medium Business</u>					
- Micro Enterprise Emp.Generation -					
Account International (FY 1988)-ITT	PSEE	(300,000)	-	-	-
(PRE Guaranty)	n.a.	(300,000)	-	-	-
- Volunteer Executive Service					
and Employees Training - Concepcion	EHR	300,000	-	100,000	200,000
Chamber of Production and Commerce					
(PRE SCORE T.A.)	n.a.	(20,000)	(20,000)		
- Venture Capital Promotion -					
Fundacion Chile	PSEE	400,000	150,000	150,000	100,000
- (PRE and USDC in-house support)	-	-	-	-	-
- Family Based Employment	PSEE	200,000	-	100,000	100,000
(WLD Matching Grant)	n.a.	-	-	-	(50,000)
SUBTOTAL		<u>900,000</u>	<u>150,000</u>	<u>350,000</u>	<u>400,000</u>
<u>Worker Betterment</u>					
- Enlightened Business Practice	EHR	600,000	200,000	200,000	200,000
(USIS Amparts/Fulbright)	n.a.	(20,000)	(20,000)	(20,000)	(20,000)
- Vocational and Skills Training	EHR	300,000	100,000	100,000	100,000
(LAC Reg. Voc. Training Project					
support and T.A.)	n.a.	(100,000)	(40,000)	(40,000)	(20,000)
(Participant Training)	EHR	(300,000)	(100,000)	(100,000)	(100,000)
- Rural Labor	ARDN	300,000	-	150,000	150,000
SUBTOTAL		<u>1,200,000</u>	<u>300,000</u>	<u>450,000</u>	<u>450,000</u>
<u>Social Interest Housing</u>					
	HG	(5,000,000)	(5,000,000)	-	-
	416	(2,000,000)	-	(1,000,000)	(1,000,000)
SUBTOTAL		<u>(7,000,000)</u>	<u>(5,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>
<u>Broad Societal Concerns</u>					
- Environmental Pollution Awareness -					
AMCHAM and follow on	PSEE	400,000	100,000	150,000	150,000
(LAC Biological Diversification)		(100,000)	(20,000)	(30,000)	(50,000)
- Science and Technology	PSEE	100,000	20,000	40,000	40,000
(PRE - PEDS cost share - INTEC)		(20,000)	(20,000)		
(PSIC's)		(900,000)	(300,000)	(300,000)	(300,000)
- Population	POP	200,000	-	100,000	100,000
(Matching grant, etc.)		(200,000)	-	(100,000)	(100,000)
SUBTOTAL		<u>700,000</u>	<u>120,000</u>	<u>290,000</u>	<u>290,000</u>
<u>Program Development Support</u>					
- Housing Study and Support	MIXED				
PD for Concepcion Vol. Services,	PSEE	60,000	30,000	15,000	15,000
other new activities,	EHR	30,000	19,000	-	11,000
and evaluation	PSEE	40,000	20,000	10,000	10,000
	ARDN	30,000	-	30,000	-
SUBTOTAL		<u>160,000</u>	<u>69,000</u>	<u>55,000</u>	<u>36,000</u>
TOTAL		2,960,000	639,000	1,145,000	1,176,000