A National Approach to Decentralizing Economic Development Policies
The Case of Chile

Juan Listerri, Inter-American Development Bank
Urban/Local Economic Development: The “Agency” Question
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Centralized Decentralization?
How everything started

- Presidential commitment
- Starting decentralization by economic development policies
- Asking the national agencies to prepare the program: CORFO (Ministry of Economy) and SUBDERE (Ministry of Interior)
- Organizing a brainstorming workshop with all public national stakeholders:
  - Agriculture (INDAP, Semapesca)
  - Labor (SENCE)
  - Tourism (Sernatur)
  - Foreign trade (ProChile)
  - Public Works

Territory and Economic Development

- A controversial concept among economists
- Gaps in territorial development (income, human development, social capital)
- Uneven factor market development in different regions
- Pending political debate
- Market failures justify an intervention on territorial bases
1. The national and sub-national context

A. The Chilean Economy

- 16 million people
- 20 years of growth
- GDP per head, US$ ppp 13,896
- Current-account balance (% of GDP) 2.3
- FDI inflows 6.7% GDP
- Inflation 2.9
- 27th WEF ranking
- 12 regions (+ 1 + 2) Metropolitan Area
- Regional/sector concentration

B. Political decentralization

C. Shortcomings of previous national programs and instruments for productive development

D. Previous Experiences of LED in Chile: ITP, Bio-Bio, Chile Emprende and Todo Chile.
B. Low level of decentralization

- National Government (President and Parliament)
- Regional Governments chaired by “intendentes”, appointed by the President of the Republic
- Municipalities: elected
- Most ministries and institutions for economic development have offices in every region
- National Regional Development Fund (Deputy Secretary for Regional Development)
- Corporación de Fomento (CORFO)

C. Shortcomings in previous delivery of public programs

- Fragmentation (many agencies and programs)
- Lack of flexibility (programs designed according national agencies objectives)
- Supply of programs often miss-match local needs
- Poor access and high transaction costs
- Difficult coordination among public agencies and with local private sector
D. Previous experiences

- Integrated Territorial Programs
- Innova Bio-Bio
- Chile Emprende: micro and small enterprises in local economic development
- Todo Chile, attraction of FDI

2. The RDA Program

A. Objectives
B. Creation of RDA and design of Regional Agendas
C. Competitiveness Enhancement Programs: Public-Private-Partnership
D. Monitoring and Evaluation and institutional reengineering
E. Complex execution
A. Objectives

- To contribute to the decentralization of productive development policies
  - make them more effective at the regional level
  - improve competitiveness of micro and SME that are part of regional clusters and value chains
- Strategy: develop local capabilities for
  - Defining regional development agendas
  - Aligning public resources to regional needs
  - Fostering coordination with private sector

B. Creation of RDA and design of the Regional Agendas

- Setting-up 13 RDA, all at once (+2)
- Structuring Public-Private Strategic Councils
- Hiring RDA Directors and technical staff
- Hiring international consultants to contribute to regional agendas with cluster analysis
- Involving local stakeholders (private sector, universities and civil society)
- Approving Regional Agendas
C. Competitiveness Enhancement Programs (CEP)

- Map relevant clusters/value chain and prioritize them according to the regional agendas
- Formulate CEP, define actions to achieve their specific goals (regulatory and private or public investments).
  - Specific methodology (cluster analysis)
  - Action plan to be funded by the program or not
- Co-fund, with other public instruments available in the Region, the implementation of the CEP:
  - Governance and management of the CEP
  - “Club goods” (not fully appropriable): training, business advisory services, technical assistance, ... at the level of the cluster

D. Monitoring and evaluation

- Management information system
- Institutional Reengineering
  - At the local and national level
- Some of the expected results
  - 40% of public resources invested in the region for economic (productive) development have been assigned through the RDA. Baseline 0%
  - 80% of participating firms value positively collective action
  - Increase in collective activities among firms
### Program budget (US$ million)

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<th>Component</th>
<th>Budget (US$ million)</th>
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<tr>
<td>Administration M&amp;E</td>
<td>1.5</td>
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<tr>
<td>Comp. 1. Creation of RDA</td>
<td>13.5</td>
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<td>Comp. 2. R. Agendas &amp; CEP</td>
<td>1.7</td>
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<tr>
<td>Comp. 3. Execution CEP</td>
<td>19.0</td>
</tr>
<tr>
<td>Comp. 4. M&amp;E and institutional adaptation</td>
<td>2.5</td>
</tr>
<tr>
<td>PPF</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40.0</strong></td>
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### E. Complex program execution

- CORFO, the executing agency.
- Need to coordinate different levels
- National level
  - Political-Strategic Ministerial Committee
  - National Services Committee
  - Technical Coordinating Unit
- Regional Development Agencies
  - Public-Private Strategic Council
  - Local cluster governing structure
E. Complex program execution [2]

- Regulatory instruments
  - Presidential instructions
  - Protocol for coordination of National Services
  - Binding regional agreements RDA and Regional Governments and agencies that provide technical/financial support for executing CEP
- Financial (budgetary) management

Execution structure
3. Program and Regional Governance

- Issues of program governance: control of the budget
- Regional/local governance:
  - National vs regional vs provincial vs local
- Private sector representation and empowerment
- RDA act as CORFO’s local units
  ... will gain independent status in the future
- Mixed response from Regional Governments
4. Current situation

- 13 (+2) ARD have been created and staffed
- The complex execution structure is working
- Regional Agendas have been prepared and installed in all regions
- International consultants have been hired for
  - Training local teams
  - Preparing the CEP with local experts of CEP
- CEP are being prepared and will start to be implemented within this year
- Resources from different ministries have been forcefully allocated to the RDA

5. Preliminary Lessons [1]

- Institutional complexity can be overcame only with a strong political support AND a relatively efficient public sector
- Resistance to decentralization is also displayed in territorial offices of national services
- The leading role of politically appointees “intendentes” has to be counterbalanced
- Professional selection of RDA staff is key

- Entrepreneurs welcome provocation of a deep strategic review to prepare the CEP
- RDA local teams, when properly trained in the use of appropriate analytical tools (i.e. cluster analysis) play a critical role
- RDA can become intelligent institutions and (together with local firms) prompt international competitiveness analysis

5. Preliminary Lessons [3]

- Considerable progress has been reached in a very short time but
  - The decentralization in economic development programs should be coupled with a parallel (if not previous) political decentralization
  - Most of the RDA still need to consolidate and prove to be (politically and budgetary) sustainable in the long run
- It will be very interesting to follow-up the experience
THANK YOU