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CHILE

IDB GROUP COUNTRY STRATEGY WITH CHILE 2019-2022

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ABBREVIATIONS

AI	Artificial intelligence
APEC	Asia Pacific Economic Cooperation Forum
ATM	Automatic teller machine
CASEN	Encuesta de Caracterización Socioeconómica Nacional [National Socioeconomic Profiling Survey]
CChC	Cámara Chilena de la Construcción [Chilean Chamber of Construction]
CCLIP	Conditional credit line for investment projects
CDC	Country Development Challenges
CGR	Contraloría General de la República [Office of the Comptroller General of the Republic]
CNE	Comisión Nacional de Energía [National Energy Commission]
CNID	Consejo Nacional de Innovación para el Desarrollo [National Council of Innovation for Development]
CNP	Comisión Nacional de Productividad [National Productivity Commission]
COCHILCO	Comisión Chilena del Cobre [Chilean Copper Commission]
CORFO	Corporación de Fomento de la Producción [Production Promotion Corporation]
CPE	Country Program Evaluation
DIPRES	Dirección de Presupuestos del Ministerio de Hacienda [Ministry of Finance Budget Directorate]
FAO	Food and Agriculture Organization of the United Nations
FIE	Fondo de Inversión Estratégica [Strategic investment fund]
FMIS	Financial Management Information Systems
FORTRAB	Programa Formación para el Trabajo [Job training program]
ICT	Information and communications technology
IPE	Índice de Percepción de la Economía [Economic perception index]
IPoM	Informe de Política Monetaria [Monetary Policy Report]
lb	Pound (unit of weight)
LBR	Loan based on results
MINSAL	Ministry of Health
MSMEs	Micro, small, and medium-sized enterprises
MWh	Megawatt hour
NIR	Net International Reserves
OECD	Organisation for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight
PBL	Policy-based loan
PBP	Programmatic policy-based loan
PISA	Programme for International Student Assessment
PMF	Performance Measurement Framework
SAI	Supreme Audit Institutions
SIC	Sistema Interconectado Central [Central region electricity grid]
SMEs	Small and medium-sized enterprises
STEM	Science, technology, engineering and mathematics

EXECUTIVE SUMMARY

Economic and social context	<p>Chile experienced an economic slowdown over the period 2014-2017, with average GDP growth coming to just 1.7%, against the backdrop of an adverse external environment resulting from falling copper prices (which dropped from US\$4 per pound in 2011 to an average of US\$2.7 per pound in 2014-2017) and declining business and consumer expectations, which led to a 6.8% contraction in investment between 2014 and 2017. Meanwhile, the fiscal position deteriorated from a surplus of 1.4% of GDP in 2013 to an average deficit of 2.4% between 2014 and 2017. As a result, central government debt, as a percentage of GDP, doubled from 12.7% in 2013 to 23.6% in 2017.</p>
The IDB Group in Chile	<p>The IDB Group's country strategy with Chile for the 2014-2018 period sought to support the government's efforts to achieve inclusive and sustainable growth. To do so, it focused on three strategic pillars: (i) productive development and competitiveness (with emphasis on competitiveness and innovation, energy, and public management); (ii) human capital development, (with emphasis on education, labor intermediation, and health); and (iii) regional development. Two crosscutting areas (gender and indigenous peoples' development) and dialogue areas relating to regional integration, transportation and logistics, natural disasters, and tax reform were also included.</p>
Priority areas	<p>The 2019-2022 country strategy will support the country's efforts to resume a path of economic growth and improve quality of life for a growing middle class and population groups that remain vulnerable. It will support the government's efforts to foster a recovery in investment and growth and ensure that Chile converges with development levels in other OECD countries. This strategic approach will rest on two pillars: (i) stronger investment and enhanced productivity; and (ii) improved quality of life for the population. The crosscutting issues of climate change and natural disaster risk management, gender and diversity, and the areas of decentralization and regional integration will be considered in all strategy efforts.</p>
Lending framework	<p>The IDB projects a sovereign guaranteed loan scenario of US\$500 million. To this will be added the resources contributed by IDB Invest and IDB Lab for private sector projects. Support will also continue to be delivered through national and regional technical cooperation and fee-based advisory services.</p>
Risks	<p>The main risks to strategy implementation are: (i) macroeconomic, associated with possible deterioration in the external context and a slower process of fiscal consolidation; (ii) the country's vulnerability to natural disasters; and (iii) the coordination of multiple actors in projects. Mitigation and monitoring measures are planned.</p>
Effective period of the strategy	<p>The 2019-2022 country strategy with Chile will be in effect from the date of its approval until 30 March 2022.</p>

I. COUNTRY CONTEXT

- 1.1 **After an extended period of growth, Chile has experienced an economic slowdown.** Chile's growth averaged 4.7% from 2004 to 2013. Nevertheless, the economy slowed from 2014 to 2017, with average GDP growth coming in at just 1.7%, below the world's growth rate over this period,¹ and less than the 5.3% in the previous four-year period.² This deterioration occurred in an adverse external context, characterized by falling copper prices (which sank from US\$4 per pound in 2011 to an average of US\$2.7 per pound in 2014-2017),³ and declining business and consumer expectations.⁴ These factors had a negative impact on investment, which fell by 6.8% between 2014 and 2017.
- 1.2 **At the same time, both expenditure and debt grew.** Over the same period, the countercyclical action of fiscal policy resulted in average expenditure growth of 9.4% per year, while income rose by 6.8%.⁵ The fiscal position deteriorated from a surplus of 1.4% of GDP in 2013 to deficit averaging 2.4% in 2014-2017.⁶ Consequently, central government debt, as a percentage of GDP, doubled from 12.7% in 2013 to 23.6% in 2017.⁷ In fiscal policy terms, convergence towards the structural surplus targets was slow and volatile. Although 2016 showed a 0.3% improvement on 2015, this was followed by a 0.4% deterioration in 2017, with the deficit currently estimated at 2.0%⁸ of GDP.⁹
- 1.3 **Despite the economic slowdown, Chile's per capita income remains the highest in Latin America.** Per capita income on a purchasing-power-parity (PPP) basis rose from US\$9,029 in 1990 to US\$21,580 in 2013. Although it stood at US\$22,350 in 2017, the highest in Latin America,¹⁰ it still lags considerably behind the OECD average (US\$40,622). The IMF projects that per capital income will reach US\$28,000 in 2020 and US\$30,000 in 2022.
- 1.4 **Chile's economy is showing signs of recovery, although the price of copper remains volatile.** The Chilean economy grew at a rate of 5.2% in the first quarter of 2018 and is expected to end the year with growth of approximately 4%. This gain in momentum was partly driven by rising investment, which grew at an average of 5% in the first half of the year, although the pace of growth is expected to slacken in the second half. Nevertheless, the price of copper has declined in recent months from US\$3.29/pound in June 2018 to US\$2.86/pound in October 2018. Although the risks associated with a deterioration in international trade are causing uncertainty as to how the price of copper will evolve, official estimates suggest it will be around US\$2.98/pound in 10 years.¹¹

¹ World Economic Outlook, IMF, October 2018.

² National Accounts, Central Bank of Chile.

³ COCHILCO.

⁴ Adimark survey of economic sentiment.

⁵ Central Bank of Chile.

⁶ "Informe de Ejecución presupuestaria trimestral" Ministry of Finance Budget Directorate (DIPRES).

⁷ "Reporte trimestral de la Deuda Bruta del Gobierno Central", DIPRES.

⁸ An estimated target of 1.5% of GDP was set when drawing up the 2017 budget.

⁹ "[Indicador del balance cíclicamente ajustado. Metodología y resultados 2017](#)", DIPRES.

¹⁰ World Economic Outlook, IMF, April 2018.

¹¹ *Comité Consultivo del Precio de Referencia del Cobre* [Copper Reference Price Consultative Committee], 2018.

- 1.5 **The economic forecasts are positive.** In its latest monetary policy report (September 2018), the Central Bank of Chile forecast GDP growth of 4.0%-4.5% in 2018, 3.25%-4.25% in 2019, and 2.75%-3.75% in 2020. In this context, bearing in mind that on average 16% of Chile's government receipts derive from copper mining, the new administration proposes to cut the structural deficit by 0.2% a year until 2022.
- 1.6 **Despite a sharp drop in the poverty rate and broad improvement in social indicators, development gaps persist.** Between 1985 and 2017¹² the incidence of extreme poverty dropped from 20% to 2.3%, infant mortality was halved (dropping to 8.5 deaths per 1000 live births) and life expectancy rose by 11 years (to 82 years).¹³ Nevertheless, Chile has the highest level of income inequality in the OECD, with a Gini coefficient of 47.7 in 2017, which has even risen somewhat in recent years.¹⁴ Additionally, when dimensions such as access to education, health, employment, housing, and social cohesion are factored in, multidimensional poverty affected 20.7% of the country's population in 2017.¹⁵
- 1.7 **Demographic trends are a critical constraint on growth.** Since the 1990s, 1.3% of Chile's growth has been driven by an expanding labor force on the back of the demographic dividend of preceding decades. This dividend has been shrinking as a result of falling fertility rates (declining from 4.02 births per woman in 1970 to 2.5 in 1990 and 1.75 in 2015). This drop has been partly offset by rising female participation in the labor force (48% in 2017 versus 31% in 1990) and the growth of the immigrant population (1,000,000 in 2018 versus 100,000 in 1990).
- 1.8 **Low productivity is hindering a return to the path of robust and sustainable growth.** Total factor productivity only contributed 0.3% to GDP growth in the first decade of the century, and it contracted by 0.3% in the current decade (despite having contributed 2.3% in the 1990s).¹⁶ The factors underlying this decline include a lack of innovation, low levels of private sector investment in research and development (0.39% of GDP, the lowest in the OECD),¹⁷ insufficiently skilled human capital for the needs of the labor market, and an education system that suffers from persistent quality problems. Regional inequalities and the limited diversification of the Chilean economy remain obstacles to innovation.
- 1.9 **State institutions need to be transformed.** Chile has historically been characterized by stable institutions that have supported growth. Nevertheless, the World Bank's governance indicators¹⁸ suggest that, with the exception of the regulatory quality index, since 2005 the country has dropped by an average of 6% on almost all the rankings (controlling corruption; political stability and absence of violence; voice and accountability; and the rule of law). Also, between 1995 and 2017 there was a worsening of public trust in State

¹² CASEN 2017 survey, Ministry of Social Development.

¹³ World Bank.

¹⁴ The latest measurement available from the World Bank showed a slight rise in the Gini coefficient between 2013 and 2015, from 47.3 to 47.7. The latest measurement by the CASEN 2017 report also shows a slight increase. Other inequality indicators reveal a similar situation.

¹⁵ The percentage of households living in poverty is higher among women (12.9%) than men (8.8%). In turn, the indigenous population (12.8% of the population reported itself as belonging to an ethnic group), remains in a more vulnerable situation than the general population, with 29.5% of indigenous children below the poverty line. Additionally, 88% do not speak or understand their original language, deepening their cultural loss.

¹⁶ National Productivity Commission (CNP).

¹⁷ "Agenda de Productividad, Innovación y Crecimiento: 2014-2018", Ministry of Economy.

¹⁸ World Governance Indicators.

institutions (the government slid by 35 percentage points, the police by 19, public administration by 18, the judiciary by 22, and the congress by 30).¹⁹ Moreover, the country sank from 33rd to 42nd place on the latest United Nations e-government development index (EGDI) ranking, and the State is behind schedule on its technological transformation.²⁰

- 1.10 **The government's strategic vision is set out in its 2018-2022 program *Construyamos Tiempos Mejores para Chile* [Building better times for Chile], which includes four key pillars:** (i) recover economic growth, by scaling up investments in infrastructure, science, and innovation, together with better human capital formation and better jobs; (ii) boost social development, in particular, by protecting children and families, ensuring access to health, and promoting an inclusive society in relation to gender, indigenous peoples, senior citizens, and persons with disabilities; (iii) modernize the State and its institutions to improve citizen security, justice, and political decentralization; and (iv) promote smart cities, environmental protection, and resilience to climate change and natural disasters.

II. THE IDB GROUP IN CHILE

- 2.1 **The IDB Group country strategy with Chile 2014-2018.** The IDB Group country strategy with Chile for the 2014-2018 period sought to support the government's efforts to achieve inclusive and sustainable growth. To do so, it focused on three strategic pillars: (i) productive development and competitiveness (with emphasis on competitiveness and innovation, energy, and public management); (ii) human capital development, (with emphasis on education, labor intermediation, and health); and (iii) regional development. Two crosscutting areas (gender and indigenous peoples' development) and dialogue areas relating to regional integration, transportation and logistics, natural disasters, and tax reform were also included.
- 2.2 Under this strategy, the Bank approved 15 sovereign guaranteed loans for a total of US\$1.175 billion. Half of these approvals (47%) were programmatic policy-based loans, totaling US\$555 million, mainly to support reforms in energy, transparency and probity, and technical education and labor intermediation services. The remainder (53%) were investment loans.
- 2.3 Following the main pillars of the 2014-2018 country strategy, loan approvals were distributed as follows: (i) eight operations for a total of US\$600 million (51%) were approved in the productive development and competitiveness area, mainly to support reforms relating to probity and transparency, diversification of production and energy, and investments in areas of State modernization, exports of global services, promoting indigenous peoples, and access to credit for SMEs; (ii) on the human capital development pillar, four operations were approved, for a total of US\$315 million (26.8%) to support reforms in the labor intermediation and technical education areas, together with investments to expand early childhood education and raise the quality of public education and; (iii) in the regional development area, one operation for US\$90 million (7.7%) was approved to revitalize districts with emblematic heritage infrastructure. A further two operations were approved for a total of US\$170 million (14.5%) linked to the regional integration area to finance the design and start of construction of the Agua Negra Chile-

¹⁹ Latinobarómetro survey 1995 and 2017.

²⁰ "Estudio para una gobernanza digital en Chile," Ministry of Finance.

Argentina binational tunnel. Total disbursements registered in the period 2014-2018 came to US\$670.1 million, with a positive cash flow for the country of US\$188.1 million.

- 2.4 Approvals of non-sovereign guaranteed (NSG) loans came to US\$525.8 million corresponding to twenty-one operations distributed across the following sectors:²¹ (i) six operations totaling US\$239 million in the energy area, in particular, operations to promote the use of nonconventional renewable energy sources (solar photovoltaic plants, wind farms, geothermal and exploratory boreholes, and energy efficiency); (ii) one operation for US\$100 million in the telecommunications sector; (iii) twelve loans for a total of US\$171.8 million in the financial intermediation sector; and (iv) two projects in the agribusiness sector for a total of US\$15 million. Additionally, through the Trade Finance Facilitation Program, thirteen loans were approved for a total of US\$126.2 million allowing 343 transactions to be financed.
- 2.5 Synergies were developed between sovereign guaranteed projects and IDB Invest operations to expand access to credit for micro, small, and medium-sized enterprises (MSMEs), using nonbank financial intermediaries. From the public sector, a loan was approved for US\$120 million with CORFO to support financing of MSMEs. This operation was linked to two IDB Lab operations (for US\$400,000) to provide technical assistance to nonfinancial intermediaries and a cooperative; and four IDB Invest loans for nonfinancial intermediaries (US\$65 million), which provided funding for 45,000 loans to small and medium-sized enterprises (SMEs).
- 2.6 Furthermore, during the strategy period, forty-three nonreimbursable technical cooperation operations for a total of US\$15.8 million and one investment grant (IGR) for US\$1 million were approved. Most of these technical cooperation resources were used to support loan operations, and some also helped maintain the Bank's presence in the dialogue areas and crosscutting pillars identified in the strategy. The country also benefited from forty-eight regional technical cooperation operations, for a total of US\$27 million, and six intraregional TC operations were approved for a total of US\$80.6 million. These transferred knowledge and good practices generated in Chile to the rest of the region. IDB Lab also approved fifteen projects for a total of US\$11.7 million (thirteen technical cooperation operations, one equity investment operation, and one social entrepreneurship program loan). Also, a regional program supporting Pacific Alliance entrepreneurial associations for US\$1.65 million is being executed from Chile.
- 2.7 A framework agreement was also signed to perform fee-based advisory services (FFS), under which seven contracts for a total of US\$1.98 million were approved. Through these projects the Bank provided advice on strengthening fiscal institutions, developing and managing metropolitan areas, regulating the sharing economy, hospital efficiency, the public education financing framework, and other areas. According to the conclusions of the 2014-2018 Country Program Evaluation (CPE) by the Office of Evaluation and Oversight (OVE), technical-cooperation-funded knowledge products and advisory services are rated highly by country counterparts.

A. Main results of the IDB Group country strategy with Chile 2014-2018

- 2.8 During the strategy period, the Bank accounted for 60% of multilateral debt, in a context of favorable access to international financial markets. The Bank's support for reforms in the energy sector and transparency and probity stood out.

²¹ Data as at 31 December 2018.

- 2.9 **Energy.** The IDB Group was an important partner in the implementation of energy sector reform. On the public sector side, it supported public policy reforms by financing a programmatic loan and providing technical assistance to introduce more competition into the electricity generating market, including measures to promote renewable energy sources, and energy efficiency and integration. The Bank also supported the preparation of a labor-impact study on the conversion of coal-fired power stations with a technical cooperation project. In turn, private sector financing helped raise energy efficiency and boost energy production from nonconventional renewable sources, in particular with investments in solar-photovoltaic plants, wind farms, geothermal and drilling exploratory boreholes. Loans were also issued to promote energy efficiency at various municipios and to install or upgrade 90 kilometers of electricity transmission and distribution lines. As a result, the installed capacity of the Central region electricity grid (SIC) and the Norte Grande regional electricity grid increased from 17,600 MW²² to 23,006 MW,²³ and the renewable-intensive installed capacity of both grids was quadrupled from 1,059 MW²⁴ to 4,544 MW.²⁵ Meanwhile, public and private sector energy consumption in the mining and industry sectors (29.23 MWh), transportation (5.03 MWh), and building (9.98 MWh) was reduced.²⁶ These operations also permitted an increase in low-carbon power generating capacity of more than 95MW, equivalent to a reduction of 70,000 tons of greenhouse gas emissions.
- 2.10 **Probity and transparency.** Between 2015 and 2017, the Bank supported a series of reforms advance by the Chilean government as part of its Probity and Transparency Agenda. The Bank initially provided technical advisory services to support the work of the President's Advisory Board to Combat Conflicts of Interest, Influence Peddling and Corruption and then went on to approve a programmatic series (PBP) for US\$230 million. Over a third of the Advisory Board's proposals were addressed by the PBP's policy conditions, receiving a high level of compliance. These focused on strengthening the regulatory and institutional framework,²⁷ compliance measures, promotion of similar conduct among the citizenry, and financing of the policy. Programmatic support made its biggest contribution in relation to funding policy to support democracy, where 75% of the Board's proposals were addressed.²⁸ The Chile 2014-2018 CPE concluded that the depth of these policies was medium-high and fulfillment was high, especially as regards the strengthening of policy financing to safeguard democracy. The main achievements made in other strategy areas are set out below.
- 2.11 **Innovation and competitiveness.** The consolidation of Chile's strategic investment fund (FIE) was supported to foster competitiveness and productive diversification. Through a programmatic policy-based loan (PBP), IDB interventions aimed to enhance management and monitoring of the FIE portfolio for productive innovation projects, which was instrumental in raising the probability of success of innovation projects (since 2015 the FIE has approved 34 initiatives, with a budget of approximately US\$170 million). The IDB's

²² Ministry of Energy, 2013.

²³ National Energy Commission (CNE), abril 2018.

²⁴ Ministry of Energy, 2013.

²⁵ CNE, April 2018.

²⁶ ACHEE, December 2015.

²⁷ Laws on probity in the civil service and prevention of conflicts of interest, and the "Senior Public Management Enhancement and Strengthening of the National Civil Service Directorate Act" were passed.

²⁸ Country Program Evaluation: Chile 2014-2018.

work with CORFO and the National Council of Innovation for Development (CNID), through the Innovation Lab (I-Lab), supported the development of social innovation prototypes. The success of this project led to the creation, in 2017, of the social innovation prototypes, a regular CORFO tool replicating the I-Lab methodology in all the country's regions. Through IDB Lab, pioneering initiatives were supported in the areas of corporate entrepreneurship, value chains, social entrepreneurship, workforce integration and youth entrepreneurship, and development of the labor force and companies geared towards smart city solutions.

- 2.12 **Access to finance.** Through its public and private sector windows, the IDB Group promotes increased access to finance for MSMEs in various market segments. Eight savings and credit cooperatives and nonbank financial intermediaries in 14 regions of the country were beneficiaries of a sovereign guaranteed loan enabling them to finance over 7,900 MSMEs in 2018²⁹ (exceeding the initial target of 2,000 by 2020, although the loan amounts were smaller than planned). For their part, private sector operations, with factoring and financial leasing instruments, channeled their operations through four relatively sophisticated nonbank financial intermediaries that had access to finance. These operations financed almost 3,000 medium-sized companies offering additionality in terms of repayment periods.³⁰
- 2.13 **Education.** In terms of results in the education sector, the IDB's biggest contribution was in the area of improvements to early childhood education. Support was provided through an investment loan for the implementation of the presidential program to expand coverage of daycare centers and nursery schools, incorporating high quality standards in infrastructure, equipment, and the care model. The Bank's loan helped clear bottlenecks and facilitated progress on the construction of 114 works (of which 80% are finished and 13% in the final stages), covering 100% of the program's target. In relation to quality and strengthening teaching practices, the planned target was met, with advanced courses being delivered to over 4,000 educators and technical staff.³¹
- 2.14 **Labor intermediation.** The Bank's interventions were geared towards strengthening the technical, management, and administrative capabilities of the labor intermediation system. The main achievements include: (i) the installation of a strategic development unit, enabling improvements in administration, supplier control, and bidding, and the analysis various training programs; (ii) improvements to information systems, although on a smaller scale than initially planned; (iii) quasi-experimental evaluation of the FORTRAB job training program; and the labor intermediation pilot in the regions of Valparaíso and Biobío.
- 2.15 **Enhancing public management and services for citizens.** In relation to State modernization, the IDB's support was targeted on improving the effectiveness of lead agencies in the delivery of services to citizens. In particular, with the Program to Improve

²⁹ The main beneficiary of the CORFO credit line for MSMEs was *Fondo Esperanza*, Chile's biggest social development institution, which supports entrepreneurs in vulnerable sectors. Another seven financial intermediaries accessed the credit line, benefiting overall 7,650 micro, 173 small, and 43 medium-sized enterprises in 2018.

³⁰ The funds helped reduce the asset/liability maturity mismatch and extend the average repayment periods for financing. The average repayment period for IDB Invest operations for financial leasing was 54 months, an improvement on the average period (36 and 60 months). Longer average periods were also granted for factoring operations (12 versus 3 months).

³¹ Country Program Evaluation: Chile 2014-2018.

Public Management and Services for Citizens, various projects were supported (7 out of a total of 12 comprising the target) with satisfactory results. In particular, these included the digitalization of administrative procedures at the Social Security Superintendency, the installation of new technology and monitoring tools at *Chile Compra* (including AI data tools), the web portal for information and procedures with *Chile Atiende*, and expansion of the National Statistics Institute's range of statistical products. In terms of the program's institutional framework, the methodology used to identify entities and services was progressively improved, and this capability was implemented at the Ministry of Finance.³²

- 2.16 **Gender and diversity.** In 2016, the Bank partnered with the World Economic Forum to launch the Gender Parity Initiative in Chile in order to reduce gaps in income and labor-market access. To date, 130 Chilean companies have signed on to the initiative. These companies belong to the main sectors of the Chilean economy, together employing 215,000 people, 43% of whom are women. Over 60% of participating companies have now conducted a self-assessment (the first step in producing an action plan) and 12% have adopted an action plan to close the gender gaps existing in their companies. The initiative's model will be presented during meetings of the APEC Forum due to be held in Chile in 2019. As regards diversity, the Bank approved a development program for indigenous people by means of a CORFO guarantee, increasing funding for investment projects in indigenous communities. Although there is a significant number of projects in the portfolio to finance investments in the La Araucanía region (55 projects), some of the operational aspects of the program are being reviewed with the new authorities to make them more attractive to commercial banks and thus accelerate execution.
- 2.17 **Climate change.** The Bank has been supporting the consolidation of a climate agenda through the Ministry of Finance, with the preparation of the country's climate change financial strategy based on its nationally determined contribution (NDC) and the structuring of sovereign green bonds for potential issue in 2019. This has permitted the consolidation of an interagency work agenda and the strengthening of a public-private partnership on climate financing of sustainable infrastructure.
- 2.18 **Regional integration.** Through a CCLIP for US\$1.5 billion, the Bank approved two investment operations³³ to finance preparatory studies and the design and construction of the Agua Negra tunnel. The first project (US\$20 million) also aims to strengthen coordination between the two countries, and the execution capacity of the binational entity (EBITAN), as well as improve local capacity. The second operation (US\$150 million) is pending signature by the governments of Chile and Argentina. Meanwhile, the IDB continued to provide support to Chile in the process of regional integration with the countries of the Pacific Alliance and Mercosur. In this context, significant progress was made in the Pacific Alliance, including interoperability of foreign-trade single windows, the creation of a regional innovation and entrepreneurship ecosystem, progress on regulatory cooperation, support for trade promotion and business meetings, and identification of opportunities for green growth.

³² Country Program Evaluation: Chile 2014-2018.

³³ One operation for US\$40 million (US\$20 million for Argentina and US\$20 million for Chile); and another for US\$280 million (US\$150 million for Chile and US\$130 million for Argentina).

B. Status of the portfolio

2.19 The **active portfolio**³⁴ of sovereign guaranteed loans comprises eleven operations for a total of US\$804.6 million, of which US\$531.9 million is pending disbursement. IDB Invest has a portfolio of twenty-two projects, with a total exposure of US\$573.8 million, in infrastructure (energy and transportation), financial services, agriculture, transport, aquaculture and fishing, and investment funds, together with one project with a value of US\$10 million at the financial closing stage. IDB Lab has an active portfolio of seventeen projects, for a total of US\$9.9 million, of which US\$5.2 million has been disbursed. These operations finance projects in innovation and technology, access to credit for SMEs via alternative investment platforms, banking services, energy efficiency, and social innovation. IDB Lab also has equity investments in three investment funds for a total of US\$13 million in agribusinesses, innovation, and business accelerators, and one loan for US\$600,000. Lastly, the outstanding portfolio includes twenty-seven technical cooperation projects, with funding of US\$9.3 million.

C. Lessons learned

2.20 The main lessons learned from sovereign guaranteed operations during implementation of the 2014-2018 strategy were: (i) in a favorable context with ready access to international financial markets, the Bank's relevance in Chile stems from its ability to provide specialized knowledge of high technical quality; (ii) local counterparts also recognize and appreciate the Bank's role as an honest broker and its contribution to the discussion and validation of public policies and good practices, as well as its role in resolving coordination failures; (iii) advisory services are sought after and valued by counterparts, and knowledge of high technical quality is being offered for public policy decisions, although approval times remain lengthy and there is little standardization of certain aspects;³⁵ (iv) the Bank played a facilitator role in high-risk innovative projects (e.g., regional integration and promoting indigenous peoples), as well as in intervention areas requiring studies of high technical quality (education), which was appreciated by counterparts; (v) the IDB helped raise the profile and ensure the continuity of public policy reforms requiring a long-term approach (e.g., energy, transparency, and probity); (vi) project costs and preparation and execution times, particularly in the case of investment projects, remain longer than expected; and (vii) portfolio management benefited from the implementation of comprehensive tripartite reviews bringing together the executing agencies, the Bank, and the Budget Directorate of the Ministry of Finance (DIPRES).

2.21 The main lessons learned from non-sovereign guaranteed operations were that project design requires: (i) better sensitivity analysis of operation performance to factor in exogenous factors, such as changes in international commodity prices; (ii) consideration, in the case of the agricultural sector, of the impact of extreme climate events and development of strategies to mitigate their impact on companies' revenues and workers' employability; and (iii) contractual provisions to protect projects and lenders from potential delays during the project construction phase. Project implementation requires: (i) selection of project operators with experience in the area to avoid delays and low performance; and

³⁴ According to data as at 31 December 2018.

³⁵ The signing of a framework agreement between the Government of Chile and the IDB made approval processes for these services more efficient, although there is still leeway to shorten approval times. According to the OVE Country Program Evaluation 2014-2018, "Compared with fee-based services by other international organizations, the IDB's FFS contracts are notable for their enhanced adaptability to country circumstances and their closeness to the client."

- (ii) consideration, at the design stage, of risks deriving from the project execution mechanisms.
- 2.22 This country strategy takes into account the recommendations made by OVE in the CPE Chile 2014-2018, namely, the need to: (i) offer the country more appropriate financing instruments that help to maximize development impact while minimizing transaction costs for the IDB and the country; (ii) develop a shared knowledge agenda between the IDB and the Government of Chile that would allow the Bank to add value by exploiting its comparative advantage as a multilateral institution; and (iii) promote coordination between the public and private sector windows, tapping opportunities for working as the IDB Group. Indeed, as the next section will show, the action areas given priority in this country strategy are clearly aligned with OVE's recommendations.

III. PRIORITY AREAS

- 3.1 **Strategic approach.** The 2019-2022 country strategy will support the country's efforts to resume a path of economic growth and improve quality of life for a growing middle class and population groups that remain vulnerable. It will support the government's efforts to foster a recovery in investment and growth and ensure that Chile converges with development levels in other OECD countries. This strategic approach will rest on two pillars: (i) stronger investment and enhanced productivity; and (ii) improved quality of life for the population. The crosscutting issues of climate change and natural disaster risk management, gender and diversity, and the areas of decentralization, regional integration, and migrations will be considered in all strategy efforts.
- 3.2 This strategic approach is aligned with: (i) the Country Development Challenges (CDC); (ii) the strategic objectives established in the 2018-2022 government program *Construyamos Tiempos Mejores para Chile* [Building better times for Chile]; and (iii) the recommendations made by OVE in the CPE. The targeted sectors will be served by the existing portfolio, an agenda of knowledge products, advisory services, and technical cooperation projects, as well as new loan operations. The complementary and more strategic use of these instruments will make it possible to work on the priority areas more consistently and ensure closer coordination between the IDB, IDB Invest, and IDB Lab, promoting synergies across interventions.
- 3.3 **Institutional Strategy 2010-2020 and the IDB Invest Business Plan.** The proposed intervention areas are aligned with the Update to the Institutional Strategy 2010-2020, which aims to strengthen institutional capacity and the rule of law, offer inclusive infrastructure and infrastructure services, develop quality human capital, establish appropriate institutional frameworks, provide suitable knowledge and innovation ecosystems, and enhance urban planning and rural infrastructure. The priorities outlined are also aligned with the priority segments of the IDB Invest 2017-2019 Business Plan as regards supporting infrastructure development, strengthening capacities to support the corporate segment, and tapping resources through the financial system.³⁶
- 3.4 **Strategic knowledge agenda and enhanced relevance of IDB Invest and IDB Lab.** The proposed approach considers the challenge the Bank faces in ensuring value-added in terms of knowledge, ability to transfer good practices in public policy, and a more active

³⁶ These action proposals are also aligned with the 2018 Business Plan Update (document CII/GA-77-4).

role as an honest broker. The knowledge agenda should integrate IDB, IDB Invest, and IDB Lab initiatives so that interventions respond to the challenges the country faces.

A. Stronger investment and enhanced productivity

- 3.5 Although Chile has undergone a structural transformation over the last 30 years,³⁷ the economy's growth has slowed in the last 15 years, primarily reflecting declining and stagnant productivity, which went from contributing 2.3% to growth in the 1990s to 0% since 2010. Similarly, in the last four years, the level of investment declined from 25% to 22% of GDP,³⁸ accompanied by a deterioration in consumer and investor confidence indices (which dropped from 56.6 to 41.0 and from 50.9 to 44.0, respectively).³⁹ Chile's economy faces the challenge of returning to a pattern of robust and sustainable growth, for which it is essential that it boost levels of investment and raise productivity. In order to make progress towards this objective, measures need to be taken that correct the underlying causes of this slow growth in productivity and private investment. In particular, these include a shortage of skilled human capital, suboptimal levels of spending on research and development; a slow process of innovation and technology transformation; constraints on access to finance; and gaps in the coverage and quality of infrastructure and associated logistics services.
- 3.6 Chile's export mix mainly comprises products classified as having low complexity, which do not make intensive use of knowledge or advanced human capital and are also produced by other countries.⁴⁰ Indeed, in 2016 Chile obtained a score of -0.16 on the Economic Complexity Index (ECI), below the OECD average of 1.1.⁴¹ On top of this challenge is the fact that Chile's mining activity, which accounts for 10.6% of GDP⁴² and 51% of exports, has also suffered a significant drop in labor and sector productivity, which have fallen by 15% and 14%, respectively, over the period 2000-2014.⁴³ In 2016, Chile lost its lead position as the main destination for mining investment,⁴⁴ and it is unlikely that the favorable price conditions seen between 2004 and 2012 will be repeated in the near future.
- 3.7 **Human capital.** Half of all Chilean adults have inadequate reading and math skills. Chile is near the bottom of the ranking compared with OECD peers in terms of the share of workers with skills in information and communications technology (ICT), and science, technology, engineering, and math (STEM).⁴⁵ The education system also suffers from

³⁷ Whereas 45% of workers were employed in the primary sector in 1986, this percentage has dropped to below 10%, two thirds of the working population is in the service sector, which has, nevertheless, been unable to turn itself into a source of productivity growth.

³⁸ Based on World Bank and OECD national accounts data.

³⁹ Economic perception index (IPE), with possible range of 0-100. Data for the period December 2013-August 2017.

⁴⁰ Lauterbach, R. (2015) "*Chile y la Complejidad de sus Exportaciones*", Working papers series no. 1, National Council of Innovation for Development (CNID).

⁴¹ Economic complexity is defined as the amount of skills and knowledge incorporated in producing a given product (Hausmann, R. and C. Hidalgo "The Building Blocks of Economic Complexity" 2009, PNAS, 106 (26) 10570-10575; <https://doi.org/10.1073/pnas.0900943106>). The economic complexity index (ECI), developed by the Center for International Development at the University of Harvard, ranks Japan first (2.26) and Papua New Guinea last (-1.73). Chile is 64th out of the 127 economies on the ranking.

⁴² Central Bank of Chile (CBC) estimate for 2017, at chain-weighted previous year's prices.

⁴³ "*Productividad en la Gran Minería del Cobre*" (2017). National Productivity Commission (CNP).

⁴⁴ Fraser Institute annual survey, <https://www.fraserinstitute.org/categories/mining>

⁴⁵ Getting skills right: Chile. OECD 2018.

serious quality shortcomings. According to the Programme for International Student Assessment (PISA), just 0.4% of Chilean students obtained outstanding performance in all areas, compared with an OECD average of 3.7%. This exacerbates the existing human capital gap and translates into levels of labor productivity below those of other economies with similar levels of development.⁴⁶ If Chile were to equal the educational quality of other high-income countries, its productivity gap could be narrowed by 60%.⁴⁷ To overcome this human capital deficit, efforts must be made to improve the quality of education in the classroom, step up and accelerate the adoption of technologies in teaching, make up for the shortfall in teachers with the right skills, enhance the institutional framework on various levels (central, local, and school), and reduce regional inequalities.

- 3.8 **Innovation and research and development.** At 0.37% of GDP, the country's research and development effort is the lowest in the OECD and below the Latin American average.⁴⁸ The private sector's share is small (35%), falling short of the OECD-country average (over 70%). Moreover, this participation is concentrated among a small group of large companies, and just 10% of firms use digital tools specific to the company's business. SMEs, in particular, make limited use of public innovation and technology-transfer support programs.⁴⁹ Chile's gaps in this field are reflected in the country's low position on a number of key indices: for example, Chile is at the bottom of the OECD ranking on the network availability index, ICT patents, ICT services, and the innovation pillar of the global competitiveness index (GCI), where the biggest gap is seen in the number of patents, followed by the capacity to innovate. The Global Innovation Index, meanwhile, points to the industrial design applications variable as one of the country's biggest challenges.⁵⁰ To overcome these gaps, steps must be taken to diversify the productive structure (copper continues to account for over 47% of exports), accelerate technology adoption in companies and the participation of the private sector in research and development efforts, and reduce the costs associated with the digital network.
- 3.9 **Access to finance.** Access to credit is cited by 18% of firms as an obstacle to doing business (compared with an OECD average of 12%).⁵¹ In particular, just 18% of the banking sector's commercial portfolio targets MSMEs (compared with an OECD average of 40%), and just 7.5% of new commercial credit went to SMEs, the lowest rate in the OECD.⁵² Despite the mechanisms that are already in place to address market failures in transactions between banks and this business segment (including CORFO guarantees, and guarantees from private sources), their scope is limited: 77% of companies do not use formal financial intermediaries to finance their activities.
- 3.10 Additionally, those MSMEs that do have access to bank finance face higher borrowing costs than peers elsewhere in the OECD (9% versus 3%), and collateral requirements are

⁴⁶ National Productivity Committee (CNP) (2017) "*Informe Anual*".

⁴⁷ Fuentes and Mies, 2014.

⁴⁸ OECD Economic Studies: Chile 2018, OECD 2018.

⁴⁹ In Chile just 2 in every 100 companies have access to this kind of support, unlike OECD countries, where more than 12% do (Shapira et al. 2013).

⁵⁰ Global Innovation Index, 2017. World Intellectual Property Organization.

⁵¹ Enterprise Survey, World Bank

⁵² OECD (2017), Financing SMEs and Entrepreneurs 2017: An OECD Scoreboard, OECD Publishing, Paris.

stricter (210% versus 196%).⁵³ A larger share of credit to these companies is aimed at financing short-term working capital needs. The gaps for MSMEs become more acute if we consider that Chile lags in terms of physical bank infrastructure: Chile has just 16 bank branches per 100,000 adults, compared with an OECD average of 25 (56% more). Similarly, the number of ATMs per 100,000 adults in Chile is 54, compared with 91 in the OECD (69% more).⁵⁴ In the same vein, the share of the population making online payments is 65% in Chile compared with an OECD average of 89%, while the share of the population with savings at a financial institution is 21% in Chile, much lower than the OECD average of 50%.⁵⁵

- 3.11 Chile also has significant gaps in equity of access to financing:⁵⁶ comparing the proportion of women who save with that of men, the rate is 0.7 for Chile, compared with 0.9 for the OECD (where gender equality would give a score of 1). Performing the same exercise for the rural and urban populations, the proportion is 0.78 in Chile compared with 0.92 in the OECD. There is also a wide rural-urban gap in access to credit from a formal institution (in favor of the urban population), which is not the case in the more advanced countries.⁵⁷
- 3.12 **Infrastructure and logistics.** The most significant challenges include the lack of long-term planning and gaps in the coverage and quality of infrastructure works, including highways, airports, railways, ports, telecommunications, interurban roads, and logistics,⁵⁸ along with inadequate execution capacity, which translates into long approval processes for new projects, and low productivity in the construction sector. According to the Global Infrastructure Outlook,⁵⁹ in 2015 the infrastructure deficit with respect to the trend up to 2040 came to US\$53 billion. What is more, although Chile is in 33rd place on the World Economic Forum's latest Global Competitiveness Ranking, it drops to 49th place on the infrastructure pillar. These infrastructure gaps are also unevenly distributed geographically, having a bigger impact on the southern part of the country. Moreover, intermodal connectivity has not been developed at ports, and it is estimated that port capacity in the central zone over the coming decade will be insufficient.⁶⁰ Chile's logistics costs are also twice those of an average OECD economy.⁶¹ Chile is below the OECD-country average on all the components of the logistics performance index, with the biggest lags being in skills and quality of logistics services.⁶² The above considerations make it necessary to resume infrastructure investment to address the existing gaps, including

⁵³ Enterprise Surveys, The World Bank. The OECD average includes Sweden, Israel, Estonia, Poland, Slovakia, Hungary, Turkey, Mexico, Chile, Latvia, and Australia. The value for Chile is that of 2010, and for other OECD countries it is that of various years between 2010 and 2014.

⁵⁴ International Monetary Fund, Financial Access Survey, 2016.

⁵⁵ Global Findex Database, 2017 (Both indicators refer to the percentage of the population aged over 15 years)

⁵⁶ The share of the population making digital payments was 65% in Chile compared with an average of 89% for OECD countries, whereas Chile's share of the population saving with a financial institution (21%) was below the OECD average of 50%. Both indicators correspond to the percentage of the population aged over 15 years and derive from the 2017 Global Findex database.

⁵⁷ According to Global Findex 2017, the share of the rural population in Chile with access to credit relative to the urban population with access is 0.7, where the average for OECD countries is 1.

⁵⁸ OECD (2017), [Análisis de gobernanza de infraestructura: Chile](#), OECD Publishing, París.

⁵⁹ See <https://outlook.gihub.org/>

⁶⁰ *Comisión Estrategia 2030 de Puertos y su Logística* [Port and Port Logistics 2030 Strategy Commission] (2015).

⁶¹ Logistics costs account for 18-35% of the value of a product in Chile, compared with almost 8% in OECD economies (OECD, 2014, "*Logistics and Competitiveness for Development*").

⁶² Logistics Performance Index, 2018

those in highways, airports, railways, ports, telecommunications, interurban roads, and logistics; and to enhance governance and the institutional framework to narrow the gaps in execution capacity, including approval times for new projects.

- 3.13 Additionally, gaps exist in connectivity stemming from slow Internet speeds, low ICT penetration, and cost. The broadband connection rate is half the OECD average (15.9 connections per 100 inhabitants in Chile, compared with an OECD average of 30.1). Chile ranks 92nd out of 200 countries in terms of broadband speeds (Cable.co.uk 2018), behind Panama (72), Uruguay (78), and Mexico (85) in the region. Also, broadband packages (corrected for purchasing power parity) cost between 10% and 20% more than the OECD average.⁶³ And optical fiber reaches just 5% of households in urban areas. The rate of ICT penetration is also much lower in rural areas (42% in rural municipios compared with 70% in the main urban areas),⁶⁴ and this limited connectivity in rural areas is hindering the adoption of digital solutions involving large data volumes and the development of analytical capacity at data centers.⁶⁵
- 3.14 Despite a significant drop (60%),⁶⁶ both residential and industrial electricity prices are higher than in other economies of the region, which has a negative impact on production costs.⁶⁷ Although Chile is the world's largest copper exporter,⁶⁸ its electricity price is the second highest of all producers, lowering competitiveness. To bring down these high energy costs, the country must reduce its dependence on imported fossil fuels for power generation, improve transmission systems, and modernize the regulation of electricity distribution.
- 3.15 Meanwhile, investment in infrastructure needs to address the new risks emerging from climate change, particularly the water shortage resulting from reduced precipitation and limited capacity for water storage and wastewater treatment (mainly affecting rural areas, agriculture, and agroindustry).^{69 70} Changes in rainfall and temperature⁷¹ patterns have also raised the likelihood of fires from 59% to 71%,⁷² causing the forestry industry annual losses of US\$50 million.
- 3.16 **Action proposals.** To address the challenges involved in boosting investment and enhancing productivity, the IDB Group will support efforts to: (i) strengthen the quality of education and innovation in classroom teaching, as well as train talent associated with the technology transformation process in order to reduce the current human capital deficit and align talent with labor-market demand; (ii) design and execute a pro-investment reform

⁶³ OECD, 2018

⁶⁴ Government of Chile (2015), *Agenda Digital 2020, Chile Digital para Tod@s*.

⁶⁵ CORFO estimates that adoption of tools of this kind could increase yields of exportable fruit crops by 15% - 50%.

⁶⁶ According to the National Energy Commission (CNE), the regulated market price to distributors ("*precio de nudo*") fell by more than 50% between 2010 and 2016.

⁶⁷ *Climatescope*, 2016.

⁶⁸ *Atlas of Economic Complexity*, Harvard University.

⁶⁹ FAO (2013), [Agro-industries for development](#). Rome.

⁷⁰ Water infrastructure needs up until 2027 are estimated at around US\$1.8 billion a year (*Infraestructura Crítica para el Desarrollo*, CChC 2018).

⁷¹ *Ibid.* For example, over the last 30 years, Chile's south-central region experienced temperatures five degrees Celsius higher than in previous periods.

⁷² Universidad de Chile (2015). "*Informe a la Nación: La mega sequía 2010-15 una lección para el futuro.*" *Centro de Ciencia del Clima y la Resiliencia* [Climate Science and Resilience Center], Santiago, Chile.

agenda in order to remove obstacles and accelerate private investment projects, complemented by IDB Invest support to deepen companies' technology adoption and transformation processes; (iii) finance private investment projects through IDB Invest to promote greater innovation and equity in financial services, including support for nonbank financial intermediaries;⁷³ participate as a source of investment funds to finance the business segment;⁷⁴ support value chains through anchor companies in the corporate sector (large purchasers and sellers); promote access to debt issuers on the local and international market as an alternative source of finance;⁷⁵ and help financial institutions comply with Basel III capital requirements; (iv) make the necessary investments to continue energy sector reform and improve generation and distribution, including support to the private sector through IDB Invest to further strengthen supply with additional clean energy resources, better transmission grids, greater storage capacity, and new technologies; and (v) promote public-private initiatives, with technical and financial support from the IDB Group, to improve intermodal and interurban connectivity, and expand current installed capacity in infrastructure, including more resilient, low-carbon infrastructure, rural broadband, and the rollout of fiber optics, along with the adoption of technologies enabling more efficient water use, ensuring the long-term availability of water resources, strengthening climate resilience, and improving water supply systems and wastewater treatment in rural areas.

- 3.17 Action proposals in this strategic area contribute to the following objectives of the Update to the Institutional Strategy 2010-2020: (i) developing quality human capital; (ii) establishing smart institutional frameworks; (iii) providing inclusive infrastructure and infrastructure services; and (iv) providing adequate knowledge and innovation ecosystems. The stated priorities are also aligned with the IDB Invest Business Plan 2017-2019, in particular as regards supporting infrastructure development, strengthening the capabilities of the corporate sector, building alliances with the financial sector to work on the priority action areas, such as SME support,⁷⁶ and the IDB Lab Business Plan adopted in November 2018.

B. Improved quality of life

- 3.18 In recent decades, Chile has seen an across-the-board improvement in its social indicators. Extreme poverty dropped from 20% to 2.3% between 1985 and 2017, and total poverty went from 45% to less than 10% over the same period. Health indicators also improved significantly, and schooling rose from 8.1 to 10.3 years between 1990 and 2017. Gross enrollment rates in postsecondary education also improved, rising from 28% to 90% over the same period. Despite the improvements observed, Chile remains below OECD averages in almost all aspects of quality of life. Success in reducing poverty has resulted in a more empowered middle class that demands ever better public goods and services, cities better suited to improved quality of life, and higher pensions. Moreover, vulnerable groups remain, particularly among the indigenous population, newly arrived migrants, and children living in poverty. To meet these challenges, efforts are needed to address the remaining causes of poverty, the demographic challenges that lead to increased vulnerability among older adults, and urban problems (congestion, crime, and pollution),

⁷³ Leasing, factoring, and securitization companies, mutual guarantee companies, credit unions, and innovative companies supporting crowdfunding mechanisms and Fintech applications.

⁷⁴ Including debt funds, private equity (PE) and venture capital (VC).

⁷⁵ Including bank and nonbank financial intermediaries, SMEs, the corporate sector, green-project finance, etc.

⁷⁶ These action proposals are also aligned with the 2018 Business Plan Update (document CII/GA-77-4).

as well as to improve the quality of the goods and services that the public receives from the State.

- 3.19 **Citizen security.** Citizen security remains the biggest concern of the Chilean people, with 69% of people identifying crime as one of the country's top five problems, ahead of health (58%), drugs (52%), corruption (47%) and poverty (44%).⁷⁷ Crime rates and the perception of insecurity are considerably higher than OECD averages (the murder rate is 50% higher than the OECD average, and around half of the population is afraid to walk alone at night, compared with an average of 30% in OECD countries).⁷⁸ Moreover, low conviction rates create a perception of impunity (only four in ten crimes are reported⁷⁹) and, although official figures show a slight drop in crime, 85% of the population believes it has increased.⁸⁰ Reducing crime and the perception of insecurity demands improved management capacity at all the institutions concerned, including more and better use of technology tools to effectively prosecute crime.
- 3.20 **Health.** More than 50% of deaths are due to chronic disease. Moreover, Chile has one of the highest obesity rates in the OECD (25.1%, compared with an OECD average of 19.0%), including child obesity (6th place in the world) and overweight among pregnant women (60%).⁸¹ To overcome these gaps, a significant improvement is required in the quality of health sector management so that the long waiting lists for hospital care resulting from shortages of specialists and infrastructure can be shortened.⁸² It is estimated that 10% of hospital admissions of chronic patients could be avoided with better care at the primary level.⁸³
- 3.21 **Pollution and urban planning.** Approximately 90% of Chile's population lives in cities with inadequate urban planning, rising motorization rates, and low-quality public transportation services.⁸⁴ This results in severe traffic congestion and long commute times to work (averaging 50 minutes in Santiago).⁸⁵ This also has an impact on air quality in the country's cities, which have some of the worst levels in the Americas (with six of the hemisphere's 20 most polluted cities). What is more, air pollution outside Santiago is made significantly worse by the use of biomass (firewood) for heating in central and southern Chile. An estimated 4,000 people per year die prematurely from the effects of pollution.⁸⁶ Climate change is continuing to drive up temperatures, while precipitation has

⁷⁷ GfK Adimark, 2018.

⁷⁸ CDC Chile 2018.

⁷⁹ ENUSC, 2016.

⁸⁰ CDC Chile 2018.

⁸¹ Ibid.

⁸² Ibid.

⁸³ Ibid.

⁸⁴ MOP 2016

⁸⁵ CASEN 2015.

⁸⁶ Recent studies have established the effects of air pollution on infant and prenatal mortality and on students' learning. See Miller S. and J.C. Ruiz-Tagle (2018) "Effects of Air Pollution on Probability of Stillbirth: Evidence from central Chile" SECHI 2018, Valparaiso, Chile; Miller S. and J.C. Ruiz-Tagle (2016) "Air Pollution and Premature Mortality in Rapidly Developing Economies: Evidence from Santiago, Chile" LACEA, Santa Cruz, Bolivia; and Miller, S, and M. Vela (2013) "The effects of air pollution on educational outcomes: evidence from Chile IDB-WP-468, Inter-American Development Bank, December.

decreased,⁸⁷ which has impacts on health, productivity, and quality of life.⁸⁸ There is a pressing need to improve urban planning, including the quality of public transportation, promote the use of electro-mobility, and explore other sources of heating, including district heating, which could use renewable sources such as geothermal energy. It is also important to develop knowledge relating to air quality and its impact on chronic disease.

- 3.22 **Labor markets.** Chileans' working hours are among the longest in the OECD (1,974 hours worked per year, compared with an OECD average of 1,763 hours) and there is limited flexibility regarding alternative work schedules.⁸⁹ To mitigate the negative impact of these long working days on health, personal safety, and overall quality of life, it is particularly important to implement new alternative forms of work, such as teleworking. The future of work is also uncertain, as studies suggest that almost half of currently existing jobs will be automated over the next 30 years.⁹⁰
- 3.23 **Aging and pensions.** The aging of the population is a fact: in 2015 there were 86 people over 60 for every 100 under 15, whereas in 1990 the ratio was 35.4 older people for every 100 under 15. Adults over 60 currently make up 17.6% of the population, and it is projected that by 2050 they will account for 30%. The share of older adults living in poverty is 6.6%. Aging also exacerbates the health challenges mentioned above. Meanwhile, pensions in Chile are low. Reasons for this include gaps in employment leading to a low contribution density, low mandatory contribution rates, and a retirement age that is young considering the population's improving life expectancy.⁹¹ The replacement rate is below the OECD average (18% for men and 28% for women), resulting in pensions that are often below the minimum wage for low-skilled female workers and informal workers.⁹²
- 3.24 **Government services to citizens.** The Chilean State is not delivering the quality of service demanded by its citizens. This is associated with limited progress on adopting ICTs to improve public service delivery: Chile dropped from 33rd to 42nd place on the most recent UN E-Government Development Index (EDI). Both the "*Escritorio Empresa*" and "*Chile Atiende*" online platforms to make the State more accessible to businesses and citizens, respectively, lack the functionality necessary for administrative procedures to be completed digitally.⁹³ Moreover, there are no uniform protocols for the sharing of information between different government systems, such that citizens are required to provide redundant information and the wealth of existing data is not leveraged to enhance the design of public policy and delivery of public services.⁹⁴ Additionally, a number of public administration indicators have deteriorated in recent years. According to the World Economic Forum, in 2017/2018 Chile was in 80th place (out of 137) for public spending

⁸⁷ In Santiago, in less than 20 years the mean temperature has risen by +0,4°C, and there has been a mean rain deficit of -43% over the last decade. Government of Chile (2016). "*Resumen climático Chile*." Dirección Meteorológica de Chile. Santiago, Chile.

⁸⁸ According to the "*Tercera Comunicación Nacional*" [Third National Communiqué], trends observed in average temperatures in Chile up to 2010 show a pattern of cooling on the coast and warming in the interior (central valley) and the Andes.

⁸⁹ OECD.

⁹⁰ CDC Chile 2018.

⁹¹ [Comisión Asesora Presidencial sobre el Sistema de Pensiones](#) (2015) [Presidential Advisory Committee on the Pension System], Final Report. Santiago.

⁹² CDC Chile 2018.

⁹³ Ibid.

⁹⁴ Ibid.

efficiency and in 69th place in terms of the regulatory burden, well below the 21st and 24th positions it occupied in 2014 and 2015, respectively.⁹⁵

- 3.25 **Action proposals.** The IDB Group will take an integrated (multisector, public-private) approach to support the country's efforts to: (i) enhance the management of public security and intelligence institutions, promoting the use of digital and technology tools, and strengthen social reintegration and rehabilitation mechanisms for individuals in conflict with the law; (ii) enhance the delivery and management of health services, in particular for the prevention and treatment of chronic diseases and the development of hospital infrastructure through public-private partnerships (PPPs); (iii) enhance urban and traffic management by using ICTs and introduce cleaner transportation technologies, such as electric vehicles and other sustainable urban and intermodal means of transportation, and heat generation (e.g. district heating, geothermal) in cities with high with levels of pollution; (iv) reform the pension system and adopt new forms of work (e.g., telework); (v) simplify administrative procedures and State transformation on easy-access digital platforms, including interoperability between State institutions; and (vi) improve access to big data and develop innovative instruments that can be used to prepare a social vulnerability map, target public policy decisions, and incorporate innovative private sector solutions to social problems.
- 3.26 Action proposals in this strategic area contribute to the following objectives of the Update to the Institutional Strategy 2010-2020: (i) providing urban planning and rural infrastructure; (ii) building State capacity; (iii) eradicating extreme poverty; and (iv) providing inclusive infrastructure and infrastructure services. These initiatives also contribute to the strategic priorities of the IDB Invest National Business Plan 2017-2019, particularly support to infrastructure development, including social infrastructure,⁹⁶ and are aligned with the IDB Lab Business Plan approved in November 2018.

C. Crosscutting issues and dialogue areas

- 3.27 The topics of (i) gender and diversity; and (ii) climate change and natural disaster risk management will be addressed as crosscutting issues.
- 3.28 Although significant progress in gender parity has been made over the last 30 years, Chile remains in 117th position (out of 144) on the global ranking of gender gap in female labor force participation.⁹⁷ The gender wage gap is 21.2% in the 35-39 age group and widens with age.⁹⁸ Indicators for Chile still show lags in terms of female employment (48.5% of women compared with 71.2% of men); access to credit;⁹⁹ access to senior management positions in the private sector (6.2% share of board positions at listed companies)¹⁰⁰ and involvement in politics. Gender-based violence is also a growing problem in the country, with 30% of women reporting that they have suffered some form of abuse. This puts Chile 2nd among the 11 countries surveyed in Latin America in terms of women who have been

⁹⁵ WEF Global Competitiveness Index.

⁹⁶ These action proposals are also aligned with the 2018 Business Plan Update (document CII/GA-77-4).

⁹⁷ *Reporte de Brecha de Género Global 2017*.

⁹⁸ *Mujer, Comunidad. "Género, educación y trabajo: la brecha persistente. Primer estudio sobre la desigualdad de género en el ciclo de vida. Una revisión de los últimos 25 años."* GET report, 2016. At <http://www.informeget.cl>.

⁹⁹ Although the number of women borrowers is 5% lower than that of men, the total amount of outstanding credit to women is 43% smaller than that to men, SBIF, 2018.

¹⁰⁰ *Comunidad Mujer*, 2018.

- victims of abuse, surpassed only by Argentina (31%).¹⁰¹ For this reason, combating violence is high on the public policy reform agenda for women—*Agenda Mujer*—announced by the government. The IDB Group plans to continue supporting the Gender Parity Initiative and the reform agenda included on *Agenda Mujer* announced by the president.
- 3.29 As regards **diversity**, the indigenous population (12.8% of the population self-identifies as belonging to an ethnic group)¹⁰² remains more vulnerable than the population at large (indigenous communities trail other groups by large margins, with less human capital accumulation, lower wages, more limited access to services, and bigger infrastructure gaps);¹⁰³ and 29.5% of indigenous children are living below the poverty line.¹⁰⁴ To address these issues, support will continue to be provided to increase the economic participation of indigenous groups, in particular by fostering indigenous entrepreneurship.
- 3.30 Most of Chile is being affected by **climate change and the risk of natural disasters**, in particular due to the shortage of rainfall, causing slow onset disasters (e.g. drought), on the one hand, and increased risk of extreme events such as floods, on the other. Through its nationally determined contribution (NDC), Chile has also undertaken to reduce greenhouse gas emissions by 2030, with the key sectors in achieving its target being energy and transportation.¹⁰⁵ Accordingly, the IDB Group will support interventions in infrastructure to alleviate water shortages and will continue to support efforts to find adaptation solutions, including studies on promoting the development of resilient infrastructure and integrated management of urban areas. It will also continue to promote greater use of renewable energy, electric vehicles, and cleaner and more efficient urban transportation.
- 3.31 **Dialogue areas.** Given Chile's strategic importance and leadership in **regional integration**, the IDB Group will continue its dialogue in areas including Chile's participation in the Pacific Alliance, intraregional cooperation arrangements (e.g., Pacific Alliance-Mercosur), and Asia-Pacific integration, in particular the Asia Pacific Economic Cooperation Forum (APEC). This collaboration agenda will focus on issues such as (i) regulatory harmonization; (ii) increased intraregional foreign investment flows; (iii) financial integration; and (iv) developing regional infrastructure.
- 3.32 Dialogue on the policy reform agenda on the issue of **decentralization** will also continue, in particular, supporting Chile's implementation of a law establishing the direct election of regional governors for the first time. Specifically, reforms will be pursued to transfer knowledge of good practices and lessons learned to enable a process of decentralization that is fiscally responsible and enhances the probity and transparency of subnational governments.
- 3.33 Lastly, dialogue will be maintained on issues relating to increased **migration** in Chile, which has risen significantly, climbing from approximately 200,000 migrants in 2002 to close to 1,000,000 in 2018.¹⁰⁶ This situation gives rise to a series of challenges relating to

¹⁰¹ WIN, 2017.

¹⁰² 2017 Census.

¹⁰³ CDC Chile 2018.

¹⁰⁴ UNICEF (2017).

¹⁰⁵ The latter accounts for 23% of total greenhouse gas emissions, (OECD/ECLAC (2016). "OECD Environmental performance reviews: Chile 2016." Paris, France).

¹⁰⁶ 2002 census and Aliens Department estimates for 2018.

access to housing and the provision of education and healthcare services. It also has an impact on the country's multidimensional poverty indicators.¹⁰⁷ Chile's experience could also offer relevant lessons to enable this challenge to be better understood across the region and help find solutions for other countries.

IV. ESTIMATED LENDING FRAMEWORK

- 4.1 The estimated sovereign financing demand scenario entails approvals of approximately US\$500 million over the country strategy period. This level of approvals, together with the expected disbursements, is consistent with the average level of financing of Chile's fiscal deficit by the IDB over the last decade. Debt with the IDB would reach US\$1.3285 billion at the end of the period,¹⁰⁸ equivalent to 9.1% of external government debt and 1.7% of total debt. Net loan flows are expected to be positive over the course of the strategy period (averaging US\$118.9 million per year for a total of US\$475.6 million at the end of the period).

V. STRATEGY IMPLEMENTATION

- 5.1 **Knowledge-generation strategy.** Given the challenge the Bank faces in staying relevant as a source of finance in Chile, it is crucial that the strategy guarantee an attractive supply of financing based on the IDB Group's value-added in terms of its capacity to generate knowledge, transmit good practices in public policy, and serve as an honest broker. A fundamental pillar of this value-added is its knowledge contribution, which should include products of high technical quality that can contribute to public policy decisions, focusing on priority challenges the country faces in converging on a higher level of development. In the framework of the strategy, and following the recommendations of the Chile 2014-2018 Country Program Evaluation (CPE), a shared knowledge agenda will be drawn up by the IDB Group and the Government of Chile, allowing the Bank to add this value as a multilateral institution and maximize its impact. This knowledge agenda will include: (i) agreements on technical and policy priorities; (ii) identification of potential partners; (iii) an implementation and financing strategy that includes technical cooperation funds and FFS contracts and identifies other sources of financing; and (iv) a clear strategy for knowledge dissemination. This agenda will also include a strategy for documenting good practices generated in Chile as a result of IDB Group actions and disseminating them across other countries of the region.
- 5.2 **Internal IDB Group coordination.** Bearing in mind the aforementioned challenge of maintaining the Bank's relevance as a financing partner in Chile and the growing participation of IDB Invest operations in the Group's total exposure to the country, more strategic coordination between the Bank, IDB Invest, and IDB Lab will amplify the impact of the Group's initiatives in the country. Moreover, Chile's demand for the IDB Group's cutting-edge knowledge, international good practices (particularly those of OECD countries), and innovative solutions, calls for better coordination of the various instruments, particularly those permitting an effective and nimble response to demand; actions to scale up successful innovations; and greater mobilization of private sector capital and finance to provide solutions to the country's economic and social challenges. To achieve this objective, the coordination between the IDB, IDB Invest, and IDB Lab will

¹⁰⁷ CDC Chile 2018.

¹⁰⁸ Annex III.

adhere to the following strategic guidelines: (i) joint development of a shared strategic knowledge agenda and an action plan for its implementation; (ii) organization of joint dialogue and engagement missions with the authorities, particularly on issues where synergies facilitate complementary work at both operational and technical assistance levels; (iii) joint organization of dissemination activities; and (iv) preparation of a joint proposal to strengthen the IDB Country Office in Chile in order to facilitate greater synergies, promote collaboration and cooperation between the various specialists and Group entities, and ensure an adequate presence to respond more effectively and nimbly to the country's needs and expectations.

- 5.3 **Use of country systems.** The Bank is currently making full use of the budget, treasury, and internal audit systems. In the case of accounting and external audit, use went from 0% to 38% and 67% to 100% between 2013 and 2017, respectively. A diagnostic assessment has been conducted of the procurement system using the new version of the OECD methodology for assessment of procurement systems (MAPS), yielding satisfactory results. The Bank maintains 100% use of the procurement system, in accordance with advance validation, in effect since 2010.
- 5.4 The plan is to continue supporting the Office of the Comptroller General in the oversight, integrity, and transparency areas during the strategy period. Complementarily, the process of alignment with International Public Sector Accounting Standards (IPSAS) will continue, and efforts will be made to improve the accounting and reporting system, particularly as regards implementation of SIGFE2.0, an upgrade that will include specific functionality for international lenders. *Chile Compra* will also be supported on the implementation of its strategic plan, with actions consolidating the development of a more innovative, competitive, and inclusive public procurement market.

VI. RISKS

- 6.1 **Macroeconomic risks.** There are moderate macroeconomic risks associated with a deterioration in the external economic environment. In Chile's case, the main risk relates to a worsening of external financing opportunities resulting from rising international interest rates. This could affect the local market (although government debt is still at moderate levels and household and corporate debt does not show significant signs of weakening; moreover, the government is a net creditor in dollars, and the fiscal position is progressing favorably).¹⁰⁹ A more protectionist scenario worldwide could jeopardize global growth in a context in which Chile is heavily dependent on international trade. Slower growth of the Chilean economy would imply less investment and a decrease in tax revenues. This could jeopardize government program targets and, consequently, the implementation of the strategy. To minimize these risks, the IDB Group will focus on boosting investment and improving productive capacity so that the country is better prepared against these contingencies. The Bank will also monitor these risks closely using its macroeconomic monitoring instruments.
- 6.2 **Natural disaster risk.** Chile is highly exposed to the risk of natural disasters, which is compounded by its vulnerability to the effects of climate change. Over the past decade, Chile has been hit by three earthquakes of over magnitude 8, two volcanic eruptions, a near-decade-long drought in the central region, and the worst forest fires on record (2017), as well as landslides and floods caused by extreme rainfall events. A large-scale natural

¹⁰⁹ Monetary Policy Report (IPOM) Q3 2018 (Central Bank of Chile).

disaster occurring during the strategy period could shift government priorities, thus affecting the execution of Bank-financed projects. Moreover, it is estimated that if the drought and the reduction in precipitation continues in the central zone, it would have a negative impact on the agricultural sector, primarily in the export-oriented segment.¹¹⁰ It is also likely that an ongoing rise in temperatures will have an impact on water resources as a result of reduced snow accumulation and changes in precipitation patterns, and that urban and other critical infrastructure will remain exposed to the impacts of extreme precipitation and rising sea levels. To mitigate these risks, the operations approved during the new strategy period will aim to incorporate and/or take into account measures to reduce natural disaster risk and to promote investments that will help adapt infrastructure and production and urban systems to this environmental reality.

- 6.3 **Execution risks.** Against a backdrop of budgetary constraints to reduce the fiscal deficit and stabilize the growth of public debt, sector ministries have limited fiscal headroom, in terms of both external and domestic resources. Also, the lack of financial additionality contributed by investment loans in the sector ministries' budgets diminishes the incentive to execute them in a timely manner (particularly if ministries believe they might receive parallel support from the Bank). Moreover, the growing multiplicity of actors (ministries, local governments, regional programs, private sector and civil society organizations and agencies) participating in projects compounds the challenges of interagency cooperation and coordination. To mitigate this risk, a point will be made of monitoring operations using an ongoing tripartite portfolio review system (sector ministries, DIPRES, the Bank) and of maintaining close dialogue with the Ministry of Finance through the DIPRES. In addition, own resources will also be used to provide technical support for the execution of certain projects when it is found that the respective execution units are weak at coordinating activities.

¹¹⁰ Climate change scenarios envisage a reduction in production potential of 10-20% in the northern part of production zone (CDC Chile 2018).

STRATEGY RESULTS MATRIX

Government priority	Priority area	Strategic objective	Expected results	Indicators	Baseline (Source and year)
Recover economic growth by means of increased investment in infrastructure, science, and innovation, and through better training of human capital, and better jobs	Strengthen investment and enhance productivity	Enhance quality and innovation in education	Improved quality and equity of student learning at school level	Average PISA score for reading and math	Reading: 459 (42 out of 70) Math: 423 (48 out of 70) (2015) PISA.
				Gap in PISA score for reading and math between higher and lower socioeconomic groups	Reading: 95 points Math: 103 points (2015) PISA.
			Improved ICT and STEM skills	Average PISA score for science	Science: 447 (44 out of 70)
				PISA score with proportion of students with excellent level	Proportion of students with excellent results in at least one subject (level 5 or 6): 3.3% (2015) PISA.
		Promote business innovation	Increased adoption of digital technology	Information technology and telecommunications development index	6.57 (2017) International Telecommunications Union
		Facilitate access to finance for investment, mainly for underserved segments	Expanded credit for SMEs	Percentage of new business lending to SMEs	7.5% (2017) OECD
		Boost the competitiveness of goods exports and diversify the economy	Improved logistic performance	Logistics Performance Index	3.32 (2018) World Bank
		Narrow connectivity gaps, raise ICT speed, and improve affordability	Expanded ICT penetration	Percentage of rural households with Internet access	66.4% (2017) Subtel.
				Percentage of households with fixed broadband	63.7% (2017) Subtel.

		Reduce electricity costs for businesses and households	Increased investment in electricity transmission and distribution systems, and in electricity generation from nonconventional renewable energy sources	Average electricity prices for industry	US\$99.72/MWh (2017) Climatescope	
				Average residential electricity prices	US\$180.99/MWh (2017) Climatescope	
Improve social development, particularly in protection of children, families, and access to health, and promote an inclusive society as regards gender, indigenous peoples, older adults, and people with disabilities.	Improve the quality of life for the population	Improve the health of the Chilean people	Improved quality of health care	Survival rates among people with cardiovascular diseases in first year after acute myocardial infarction	82.7% MINSAL, 2015	
			Reduced public health risks	Prevalence of overweight and obesity	74.2% ¹¹¹ ENS, 2016	
Increase pensions sustainably		Increased pensions	Gross pension replacement rate per average worker	41.9 OECD, 2013		
Simplify government procedures for the public		Greater number of online administrative procedures	Government effectiveness ranking	78, World Governance Indicators, 2017		
Promote smart cities, environmental protection, and resilience to climate change and natural disasters.		Increase connectivity and mobility in urban areas	Improved connectivity and mobility in urban areas	Mobility and connectivity, urban quality of life index (ICVU), country average	66.41 <i>Instituto de Estudios Urbanos UC</i> , 2018	
		Improve the urban environment	Improved standard of housing and environment	Housing and environment, urban quality of life index (ICVU), country average	40.99 <i>Instituto de Estudios Urbanos UC</i> , 2018	
		Improve air quality in urban areas	Reduced exposure to air pollution in Chile's cities	Number of days/cities with critical episodes	586 SINCA, 2017	
		Strengthen resilience to weather events	Reduction in the negative impact of climate threats	Number of disasters due to climate events	8 (between 2014 and 2018, EM-DAT-2018)	
Modernize the State and its institutions to introduce greater citizen security, justice, and political decentralization.						

¹¹¹ Sum of incidence of overweight (39.8%), obesity (31.2%), and morbid obesity (3.2%).

COUNTRY SYSTEMS MATRIX

Strategic objective	Expected results	Indicator	Unit of measurement	Baseline	Base year	Main objective	Time distribution	CRF alignment
Strengthening country systems	Institutional performance of Office of Comptroller General of the Republic (CGR) evaluated using SAI performance measurement framework with SAI post-PMF action plan designed.	Evaluation applied, with action plan designed	Number of diagnostic assessments	0	2017	1 evaluation applied with SAI post-PMF action plan designed	At strategy end	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	International Public Sector Accounting Standards (IPSAS) implemented on all levels.	IPSAS training	Number of training courses	0	2017	1 IPSAS training course designed	At strategy end	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
Strengthening country systems or subsystems	Chile's Advanced Auditing and Accounting Practices (IPSAS) are received by other countries through South-South cooperation	Number of countries and entities in the region receiving Chile's support on cooperation and strengthening	Number of South-South cooperation initiatives	11	2017	12	At strategy end	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Chile's advanced procurement practices are received by other countries through South-South cooperation	Number of South-South cooperation and strengthening activities in which countries receive Chile's support	Number of South-South cooperation initiatives	8	2017	10	At strategy end	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality

Increased use of country fiduciary systems	Increased use of the accounting and reports subsystem	Active portfolio using the accounting and reports subsystem	Percentage of active portfolio	38% use of accounting and reports subsystem (SIGFE)	2017	42% use of accounting and reports subsystem (SIGFE)	At strategy end	<ul style="list-style-type: none"> - Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Increased use of individual consulting subsystem	Active portfolio using individual consulting subsystem	Percentage of active portfolio	90% of projects using individual consulting subsystem	2017	100% of projects using individual consulting subsystem	At strategy end	<ul style="list-style-type: none"> - Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality

MAIN ECONOMIC AND SOCIAL INDICATORS

Social indicators	2010	2011	2012	2013	2014	2015	2016	2017
Population (million) (2)	17.1	17.3	17.4	17.6	17.8	18.0	18.2	18.4
Overall poverty rate (%) (3)		22.2		14.4		11.7		8.6
Extreme poverty rate (%) (3)		8.1		4.5		3.5		2.3
Unemployment rate (%) (2)	8.2	7.1	6.4	6.0	6.4	6.2	6.5	6.7
Nominal GDP (US\$ million) (6)	310,389	350,575	374,242	394,292	404,733	404,737	420,457	444,778
Nominal GDP per capita (US\$) (6)	18,187	20,317	21,453	22,363	22,714	22,477	23,112	24,207
Real Sector ($\Delta\%$)								
Nominal GDP (1)	15.3	9.4	6.5	6.1	7.8	7.4	6.1	6.2
Real GDP (1)	5.8	6.1	5.3	4.0	1.8	2.3	1.3	1.5
Final consumption (1)	14.1	11.9	8.8	8.1	9.0	8.3	6.7	5.3
Private (1)	14.4	12.8	9.2	7.8	8.6	8.0	5.6	4.7
Public (1)	12.5	7.6	6.6	9.4	11.3	9.8	12.0	8.1
Nominal GDP per capita (US\$) (1)	12.4	11.7	5.6	4.2	1.6	-1.0	2.8	4.7
Consumer price index (1)	1.9	3.3	3.0	1.8	4.7	4.3	3.8	2.2
Public Finances (% of GDP)								
Total revenues, central govt. (4)	21.4	22.6	22.1	20.9	20.6	21.0	20.8	21.0
Tax revenue (4)	15.8	17.3	17.5	16.6	16.5	17.3	17.1	17.1
Non-tax revenue (4)	5.7	5.3	4.6	4.3	4.1	3.7	3.7	3.9
Total expenditure, central govt. (4)	21.9	21.3	21.6	21.5	22.2	23.2	23.5	23.7
Primary current exp. (4)	17.5	16.7	17.0	17.3	17.8	18.3	18.9	19.3
Capital (4)	3.9	4.1	4.0	3.6	3.8	4.2	3.9	3.6
Interest (4)	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.8
Central govt. net result (5)	-0.4	1.4	0.7	-0.5	-1.5	-2.1	-2.7	-2.7
Central govt. net primary result (5)	-0.3	1.5	0.8	-0.4	-1.3	-1.9	-2.4	-2.4
Central govt. gross debt (5)	8.6	11.1	11.9	12.7	15.0	17.3	21.0	23.6
Central govt. net debt (5)	-7.0	-8.6	-6.8	-5.6	-4.3	-3.4	0.9	5.3
External accounts (% GDP)								
Current account (5)	1.4	-1.6	-3.9	-4.0	-1.7	-2.3	-1.4	-1.5
Balance of goods and services (1)	6.5	3.3	0.0	-0.5	1.0	-0.1	0.9	1.9
Exports (6)	37.7	37.8	34.1	32.2	33.1	29.4	28.2	28.7
Imports (6)	31.3	34.4	34.1	32.8	32.2	29.6	27.3	27.0
Foreign direct investment (5)	3.0	1.5	3.6	3.9	4.2	2.1	2.0	0.6
NIR (US\$ million) (1)	27,864	41,979	41,649	41,094	40,447	38,643	40,494	38,983

Sources: World Bank (1), INE (2), CASEN (3), DIPRES (4), WEO (5), World Bank (6).

ESTIMATED LENDING SCENARIO 2019-2022

(US\$ million and percentages)											
	Country Strategy 2014-2018					Total	Country Strategy 2019-2022				Total
	2014	2015	2016	2017	2018		2019	2020	2021	2022	
Approvals	123	360	380	312	0	1175	240	200	30	30	500
Disbursements	23.6	30.7	218.1	190.1	207.6	670.1	177	223	178	83	661
Repayments	69	72	73	71.1	56.7	341.8	51.9	48.8	45.5	39.2	185.4
Net lending flow	-45.4	-41.3	145.1	119	150.9	328.3	125.1	174.2	132.5	43.8	475.6
Subscriptions	5.8	24.4	11.4	0	0	41.6	0	0	0	0	0
Net capital flow	-51.2	-65.7	133.7	119	150.9	286.7	125.1	174.2	132.5	43.8	475.6
Interest and fees	17.1	15.4	18.3	20.5	27.3	98.6	32.5	34.5	34.3	32.9	134.2
Net cash flow	-68.3	-81.1	115.4	98.5	123.6	188.1	92.6	139.7	98.2	10.9	341.4
						Average					Average
Debt to IDB	479	437	582	702	852.9	610.6	978	1152.2	1284.7	1328.5	1185.9
IDB debt/GDP (%)	0.2%	0.2%	0.2%	0.3%	0.3%	0.2%	0.3%	0.4%	0.4%	0.4%	0.4%
IDB debt/external govt. debt (%)	8.2%	6.1%	6.2%	5.8%	6.1%	6.5%	6.8%	7.9%	8.8%	9.1%	8.2%
IDB debt/external multilateral debt (%)	83.2%	81.2%	75.9%	81.4%	85.2%	81.4%	86.7%	88.5%	89.5%	89.9%	88.6%
IDB debt/total govt. debt (%)	1.3%	1.1%	1.1%	1.0%	1.2%	1.1%	1.3%	1.5%	1.7%	1.7%	1.5%

Source: Bank systems, government debt office, WEO and internal staff estimates. Disbursement projections consider current portfolio operations plus disbursements associated with two-tranche policy-based loans. Information on repayments and interest come from the Bank's report <http://iredwprod/dsprj/> based on the current portfolio.

DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (document GN-2489) to increase the evaluability of all Bank development products.

The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the “Good Practice Standards for Country Strategy and Program Evaluation.”

COUNTRY STRATEGY

STRATEGIC ALIGNMENT

Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government’s development plans and priorities.

EFFECTIVENESS

These measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and buildup of country systems.

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)	Yes/No
- The CDC clearly identifies the main development challenges prioritized by the EBP	Yes
- The CDC’s main development challenges are based on empirical evidence	Yes
II. CS Priority Areas Diagnostics**	%
- identify the priority area’s main constraints and challenges	100%
- identify the main factors/causes contributing to the specific constraints and challenges	100%
III. Results matrix*	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results are directly related to the main constraints identified in the Diagnosis	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	100%
IV. Vertical logic	
- The CS** has vertical logic	Yes

* The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expected results stem from the strategic objectives.

** CS includes the CDC.

CS Diagnostic:

As part of the country strategy a country development challenges diagnostic was presented (Hyperlink in CS index). The CDC diagnostic is comprehensive and based on empirical evidence. The CDC diagnostic identifies (2) priority areas for the Bank’s intervention: - (i) increased investment and improved productivity; and (ii) the improvement of the quality of life of the population.

-The diagnostic clearly identifies and dimensions, based on empirical evidence, priority area’s specific constraints and challenges.

-The diagnostic clearly identifies and dimensions, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges for the priority areas.

-The diagnostic provides policy recommendations for Bank actions, that are based in empirical evidence.

Results matrix: *The section of the results matrix corresponding to the new strategic area includes 16 strategic objectives for Bank action, 19 expected results and 25 indicators to measure progress.*

-100% of the Strategic Objective(s) are clearly specified.

-100% of the expected result(s) are clearly specified.

-100% CS Objectives are directly related to the main constraints identified in the Diagnosis.

-100% of the indicators used are SMART.

-100% of the indicators have baselines.

Country Systems: *Diagnostics are available for all financial management sub-systems.*

-We will continue to use 100% of the sub-systems of budget and treasury, partly the sub-system of accounting and the reports, 100% of the sub-system of external control and internal audit.

-In terms of acquisitions, we will continue to use 100% of information systems, 100% of shopping methods, 100% of contracting individual consultant and 90% of advanced use of National System, aiming at 100% in 2022.

The CS has vertical logic.

RISKS. *The main risks facing the implementation of the EBP are related to: (i) macroeconomic risks; (ii) risk of natural disasters; and (iii) execution risks. The CS identifies specific mitigation and monitoring measures for each risk.*

MANAGEMENT’S RESPONSE TO THE COUNTRY PROGRAM EVALUATION: CHILE 2014-2018

OVE recommendation	Management response
<p>Recommendation 1: Offer the country more appropriate financing instruments that help to maximize development impact while minimizing transaction costs for the IDB and the country. This means finding alternatives in the form of loan instruments with innovative features that reduce execution periods and/or transaction costs, such as the new results-based loans that finance the expenditure framework of a government program. IDB Management could also explore a strategy for directly financing budget lines under government programs for a set period. This option would require the incorporation of a “certification” process for the technical and fiduciary aspects of government programs. With respect to technical aspects, programs would need to demonstrate their development effectiveness and alignment with the IDB Group’s sector and institutional priorities. With respect to fiduciary aspects, they would require country systems that are robust in financial and control terms, as is the case in Chile. Lastly, the possibility might be explored of combining these options with the use of social impact bonds.</p>	<p>Agree.</p> <p>Management agrees that in Chile, as in the rest of the countries in the region, appropriate financing instruments that help to maximize development impact should be offered. The financing instruments should address country needs in terms of flexibility, rapid response, and transaction costs, as well as the specific characteristics of the required interventions.</p> <p>Management proposes continuing to use a wide array of loan instruments to support the Chilean government. In addition to traditional investment loans and PBLs, there are plans to increase the use of loans based on results in areas such as education. This instrument has innovative features and disburses against the achievement of results. It finances costs related to the achievement of those results, reducing transaction costs for the country and the Bank. Results-based loans not only add value in financial terms but also support institutional capacity-building, among other aspects. Chile is the country that makes the most use of the fee-for-services instrument, as highlighted in the evaluation.</p> <p>The Bank, under the leadership of the Office of Strategic Planning and Development Effectiveness (SPD), periodically revises the menu of sovereign guaranteed loan instruments to meet the changing needs of its clients. This year (2018), SPD, in coordination with the Bank’s Vice Presidencies, has identified several loan instruments for review, updates, or redesign.</p> <p>Management plans to provide support to Chile’s Ministry of Social Development for the preparation of a social vulnerability map and the formulation and management of innovative solutions and public policies for the identified communities. To reduce social vulnerability, the plan is to use loans and/or technical cooperation and possibly financing for social impacts bonds, or a combination thereof, to deploy innovative public-private solutions.</p>
<p>Recommendation 2: Develop a shared knowledge agenda bringing together the IDB and the Government of Chile that would allow the Bank to add value by exploiting its comparative advantage as a multilateral institution. Knowledge issues are a key element of value added in high-income countries. The Bank could maximize its impact in terms of knowledge by preparing a knowledge generation strategy that includes agreements on technical and policy priorities, as well as the identification of potential partners; a financing strategy encompassing technical cooperation funds, FFS contracts, and the identification of other sources of funding; and a clear strategy for disseminating knowledge.</p>	<p>Agree.</p> <p>Management proposes working with the government, in the framework of the new country strategy with Chile, to develop a joint strategy and agenda for generating knowledge on priority issues for the country that the IDG Group could support with value-added. This agenda could include the generation and transmission of knowledge through technical analyses; potential strategic partnerships with academia, governments, international organizations, and private sector think tanks; events, workshops, conferences, and other vehicles for the dissemination of knowledge, good practices, and lessons learned; shared experience at the regional and international levels; technical cooperation; paid advisory services; etc.</p>

<p>Recommendation 3: Promote coordination between public and private sector windows, tapping opportunities for working as the IDB Group. In the new work context with IDB Invest, greater strategic coordination should be promoted between the windows in order to define the IDB Group's strategic position in the country, thus maximizing its development impact.</p>	<p>Agree.</p> <p>Management will continue to promote deeper coordination between sovereign and nonsovereign guaranteed operations, including public-private partnerships, to continue attracting private investment to key sectors. Synergies and coordination between the public and private sectors are very important in all sectors. In the energy sector, the public sector windows provided support for sector reform through technical cooperation and a PBL, and IDB Invest has supported, and will continue to support, the generation of nonconventional renewable energies (solar, wind, and geothermal). That coordination also served to establish an explicit market development strategy. The IDB Group (ENE and CCS in the public sector, and IDB Invest) helped Chile prepare and approve an investment plan for the Clean Technology Fund (CTF). And IDB Invest has approved, and is in the process of approving, other operations for the generation of nonconventional renewable energies and energy efficiency, financed partially with CTF funds.</p> <p>Ongoing coordination will be promoted between IDB, IDB Invest, and IDB Lab specialists to develop and implement joint strategies and work plans to promote public-private solutions in priority areas such as transportation (electric buses), social infrastructure, energy, and health services.</p>
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