



Country Program Evaluation

Chile

2014-2018

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Preface

As part of its 2018 work plan, the Office of Evaluation and Oversight (OVE) has prepared the IDB Group Country Program Evaluation (CPE) with Chile for the 2014-2018 period. The IDB Group comprises the IDB, the institution's public window, and IDB Invest, its private window. This is OVE's fourth independent evaluation of the IDB's program in Chile. Previous CPEs (documents RE-320, RE-380, and RE 465 1), together with OVE's evaluation on middle and upper-income countries (document RE-447-1), have highlighted the IDB's limited competitiveness in a country that has access to financing on the capital markets, and the consequent difficulty of developing a business model adapted to its needs. Some of these evaluations also highlighted the importance of the IDB's potential for nonfinancial "value added" in this context.

This CPE evaluates the IDB Group's relationship with Chile during the 2014-2018 period and provides recommendations for establishing a new strategy with the incoming administration. To this end, OVE held meetings with IDB Group staff and Chilean government officials, including, in the latter case, officials from both the 2014-2018 administration and the new government that took office in March 2018. The objective was to understand the new administration's approach to multilateral organizations and prepare a country evaluation that would be of use in preparing the Bank's new country strategy with Chile. The evaluation also drew on information from corporate and country statistical databases, documentary analysis, and secondary information sources.

The evaluation underscores lessons learned about the IDB Group's relationship with the government—particularly the supply of financing, use of financial and nonfinancial instruments, program efficacy, and the value-added provided—important considerations in developing a new strategy. This document is organized as follows. Chapter I analyzes the macroeconomic, social, and institutional context in which the Bank's country strategy was implemented. Chapter II analyzes the Bank's strategic positioning in the country: its operations program, its financial and nonfinancial relevance, and the efficiency of the program. Chapter III analyzes the effectiveness of operations with respect to planned strategic objectives. Lastly, Chapter IV presents conclusions and recommendations.

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Abbreviations

CASEN	<i>Encuesta de Caracterización Socioeconómica Nacional</i> [National Socioeconomic Profiling Survey]
CORFO	<i>Corporación de Fomento de la Producción</i>
CTF	Clean Technology Fund
FFS	Fee for service
FIE	<i>Fondo de Inversión Estratégica</i> [Strategic Investment Fund]
IMF	International Monetary Fund
INE	<i>Instituto Nacional de Estadísticas</i> [National Statistics Institute]
IRR	Internal rate of return
JSP	Joint Studies Program
JUNJI	<i>Junta Nacional de Jardines Infantiles</i> [National Kindergartens Board]
MINEDUC	Ministry of Education
MINVU	Ministry of Housing and Urban Development
MSMEs	Micro, small, and medium-sized enterprises
MTPS	<i>Ministerio del Trabajo y Previsión Social</i> [Ministry of Labor and Social Security]
NBFI	Nonbank Financial Institution
NSG	Non-Sovereign Guaranteed
OECD	Organization for Economic Cooperation and Development
OVE	Office of Evaluation and Oversight
PBL	Policy-Based Loan
PBP	Policy-based programmatic loan
PISA	Programme for International Student Assessment

PPA	Power Purchase Agreement
R&D	Research and development
Red PLAC	<i>Red de Pensiones de América Latina y el Caribe [Latin American and Caribbean Pension Network]</i>
SENCE	<i>Servicio Nacional de Capacitación y Empleo [National Training and Employment Service]</i>
SICEX	<i>Sistema Integrado de Comercio Exterior [Integrated External Trade System]</i>
SMEs	Small and medium-sized enterprises
SUBDERE	<i>Subsecretaría de Desarrollo Regional y Administrativo [Department of Regional Development]</i>
TFP	Total Factor Productivity
UF	<i>Unidad de Fomento [development unit]</i>

Executive Summary

As part of its 2018 work program, the Office of Evaluation and Oversight (OVE) has prepared the IDB Group Country Program Evaluation (CPE) with Chile for the 2014-2018 period. This CPE assesses the IDB Group's relationship with the country during the 2014-2018 country strategy period and provides recommendations that will allow IDB Management to forge a new relationship with the incoming administration.

Chile has one of the highest per capita incomes in the region and one of the lowest levels of country risk. Despite this, it faces challenges in terms of relatively low productivity growth, high levels of social inequality, and limited institutional capacity at the subnational level. The Chilean economy posted average growth of 1.9% per year during the country strategy period (2014-2018), compared with 4.6% between 2010 and 2014. Despite this deceleration, the Chilean economy grew at a faster pace than its regional peers and proved better prepared to deal with external shocks. Although external conditions showed signs of improving in 2017 and growth rates are forecast to recover over the next few years, the weak productivity performance is a structural challenge that hampers Chile's convergence with countries in the Organization for Economic Cooperation and Development (OECD). The main factors affecting productivity growth are the limited diversification of the production matrix and low levels of innovation. In the social sphere, social protection policies have led to notable progress, including a marked reduction in poverty. Despite this progress, Chilean society continues to be characterized by high levels of inequality between vulnerable groups and between regions. The average number of years of schooling remains high in Chile, yet problems of quality and educational performance persist. Chile's health indicators are the best in the region, although it faces challenges with respect to coverage of human resources. Meanwhile, Chile's labor market is characterized by low levels of productivity and social security protections. Lastly, although Chile is a benchmark in the region in terms of institutional capacity and quality, limitations persist at the subnational level and in terms of the quality of public services.

During the evaluation period, the Chilean government deepened several reform processes to address the country's long-term challenges. These included tax reform, aimed at creating a more progressive system, and education reform, to boost access for all

social strata. In the electricity sector, a program was launched to reduce costs and make rates more equitable. In the labor market, the government promoted policies to expand workers' rights. With respect to public management, the government supported reform in the areas of transparency and integrity, and towards the end of the period it was successful in moving forward with reforms promoting regional development and decentralization.

Chile changed its financing strategy, moving away from short-term bank borrowing towards longer-term financing through bonds. Chile's borrowing policy over the 2014-2018 period emphasized bond issuance on domestic and international markets, with the aim of boosting fiscal liquidity and deepening medium and long-term benchmark rates in the fixed-rate market. Within the debt management strategy, the space dedicated to multilateral borrowing has been relatively small.

The country strategy with Chile for the 2014-2018 period was approved in October 2014. It was based on a diagnostic assessment that emphasized the slowdown in convergence towards development levels in advanced countries. Against this backdrop, the country strategy identified a window of opportunity for the IDB to develop a program that could serve as a model for other countries. The objective of the country strategy was to support the government's plan to achieve inclusive, sustainable growth. To this end, work on three strategic pillars was proposed: productive development and competitiveness, human capital development, and regional development. The crosscutting areas of indigenous peoples' development and gender were also included, together with areas for dialogue that encompassed support for tax reform, regional integration, transportation and logistics, and natural disasters.

The Bank's operations program during the evaluation period more than doubled the level of approvals envisaged in the country strategy's lending framework. Between 2014 and 2017, the Bank approved US\$1.175 billion in sovereign guaranteed loans, surpassing average approval levels of previous cycles and the approval levels of other multilateral institutions. Of the total approved amount, nearly half consisted of programmatic policy based loans (PBLs and PBPs), a distinctive characteristic of this period; the other half were investment loans. Non-sovereign guaranteed loan approvals totaled US\$588.7 million over the period. In terms of sectors, the IDB program was aligned with the strategic objectives of the country strategy, but with a strong concentration in the productive development and competitiveness pillar, mainly energy, followed by the human capital pillar, mainly education. The Bank also approved US\$15 million in nonreimbursable technical cooperation operations; these were aligned with the strategic objectives of the country strategy and the Bank's operations program and were used to support the loan

portfolio, leverage resources, and generate knowledge products. The IDB also billed US\$1.2 million in fees for services provided (FFS). The legacy portfolio, meanwhile, was aligned with the country strategy objectives, but there were significant total and partial cancellations.

Although IDB financing of Chile's budget is marginal, the Bank accounted for more than half of the country's total space for multilateral borrowing. However, the interest rates charged by the IDB have been uncompetitive compared with those available to Chile on international markets. A comparison of financial yields on sovereign bonds and the cost of IDB-financed projects shows that the Bank is relatively more expensive. These costs are increased by the actual execution profile of the operations. Indeed, estimates of the internal rate of return (IRR) for the IDB as an investor show that the IRR on IDB loans is generally higher than on sovereign bond of the same maturity (10 years); that the effective IRR on IDB operations is on average 10 basis points above that stipulated in the contract; and that nonreimbursable technical cooperation funds help to improve the competitiveness of the IDB's financial products.

Despite the challenges that the IDB faces in competing on a financial basis in Chile, other factors make it attractive to the government. Counterparts in the country underscored the value added of its high-quality technical contributions. They also noted the contribution made by the IDB in its role as honest broker, helping to compare ideas, validate achievements, and identify opportunities for improvement as an impartial third party. The government authorities highlighted the IDB's role in helping to resolve coordination failures between agents. The Bank took on the role of facilitator for innovative, high-risk projects (regional integration) and niche projects (indigenous), as well as for areas of intervention that required high-quality technical studies (education, pensions). The IDB also helped to provide visibility and continuity in policy reforms with a long-term vision (transparency and integrity, energy, competitiveness).

In terms of the efficiency of the operations program, the disbursement profile for the sovereign guaranteed (SG) portfolio in Chile was slightly below average for the IDB and for comparable countries, while the execution of non-sovereign guaranteed (NSG) operations was above average. In all, 20% of SG funds approved during the period were disbursed. The main factors affecting the execution of the sovereign guaranteed loan portfolio in Chile were exogenous in nature (changes in administration of the public sector, staff turnover, delays in the enactment of framework laws, and lack of budgetary space). Even though these were identified as project risks, the mitigation measures were not always effective. Despite the use of country systems, the costs to the IDB of preparing and executing SG operations approved in Chile were relatively higher than in comparable countries. Given the relatively small size of

operations approved in Chile, the cost of investment loans per dollar approved is higher still. When the net effect of the size of the operations is separated out, around one third of the cost differential is explained by the high-level profile of IDB professionals working in/for Chile. This, in turn, is part of the Bank's value proposal in the country. Meanwhile, preparation and disbursement periods for NSG operations were lower in Chile than in comparable countries.

The evaluation analyzed the effectiveness of the IDB's operations program based on both the type of instrument and the strategic sectors defined in the country strategy and their contribution to achieving planned objectives. Given the size of the IDB program in Chile, it is impossible in most cases to attribute progress in country strategy indicators to the IDB. It is, however, feasible to measure its contribution. With regard to the strategic pillars in the country strategy, progress in the right direction was made towards most of the expected results:

- **Productive development and competitiveness:**

The IDB's work in the area of competitiveness and innovation grew substantially during the evaluation period, providing support for productive development policies. The Bank assisted the country in its objective of deepening institutionalization of the National Innovation System. IDB interventions were aimed at improving the portfolio management of productive innovation projects by the Strategic Investment Fund (FIE) and at financing innovative pilot projects. The Bank found a niche supporting business development programs for indigenous groups, although it is still too early to see results. The IDB Group provided support through both its public and private sector windows for programs to improve access to financing for micro, small, and medium-sized enterprises (MSMEs); preliminarily, this has yielded satisfactory results, showing market segmentation.

In the energy sector, the IDB Group was an important partner in implementing sector reforms that underpinned progress towards the objectives set out in the country strategy. The public sector portfolio, in the framework of PBLs, was aimed at supporting the development of a long-term energy policy, promoting renewable energy, supporting energy efficiency, and advancing energy integration. The private sector portfolio was aligned with the country strategy objective of supporting the generation of nonconventional renewable energies. The projects approved in the context of the Clean Technology Fund (CTF) responded to an explicit intervention strategy and promoted coordination between the IDB Group's public and private sector windows, whereas for the rest of the NSG operations, no strategic positioning for market development was observed. The renewables portfolio was

exposed to the risk of a price drop in the spot market. However, the leveraging of concessional resources for private sector operations and the additionality in terms of tenors are noteworthy factors.

The IDB has a long history of supporting public management in Chile, and it has contributed to progress towards the strategic objective of preparing the State for demands from its citizens. In 2014, the Bank approved the Public Management and Citizen Services Improvement Program, which is currently in execution and is supporting key service delivery institutions with satisfactory results. At the same time, the IDB supported the Integrity and Transparency Agenda, demonstrating adaptability and flexibility in response to country requests. These policies had high levels of compliance.

• **Human capital development**

The education sector received substantial financial and technical support from the IDB. In this regard, the IDB emerged as one of the development partners with the strongest presence in the sector. In terms of results, the IDB's greatest contribution was to the objective of improving the coverage of early childhood education, supporting a presidential program to expand nursery and preschool coverage that accounted for 25% of the target. In relation to the objective of improving the quality of education, the IDB supported the government by financing a PBL to improve technical and vocational education. Policy conditions under the initial tranches are of medium-low depth, but conditions under the last one (for which disbursement is still pending) are of greater depth. The IDB also approved a program to strengthen education management; however, no progress has been made in its execution and no results can therefore be reported.

In the health sector, despite limited financial support, the IDB has sought to position itself in specific niches by providing high-value technical support. Nonetheless, these actions are insufficient to attain the objectives set out in the country strategy. The IDB's technical contributions in the sector have included support for the health investment plan, support for improving the registration and regulation of medical devices, and support for strengthening the response capacity to reduce the likelihood of outbreaks of disease on Easter Island.

With respect to labor markets, the IDB program was aligned with the country strategy objective of improving labor participation and employability among the most vulnerable groups, but the operations did not reflect the specific emphasis on gender proposed by the country strategy. Nevertheless, the program addressed structural issues of relevance for the country. In terms of the objective of improving employability and the labor intermediation system, the IDB helped to strengthen the technical, management, and administrative capabilities of the National Training and Employment Service

(SENCE) and the labor intermediation system, with partial results. In the area of pensions, the IDB's technical cooperation operations generated diagnostic assessments that enrich the policy dialogue.

- **Regional equity and development**

The Bank continued to support the Department of Regional Development (SUBDERE) and the decentralization process through heritage preservation programs, with some positive results. However, there was no progress with respect to country strategy objectives. In parallel, the IDB assisted SUBDERE's Regional Development Division in promoting the subnational agenda, with preparation of a report on metropolitan areas (FFS) and implementation of the Emerging and Sustainable Cities Initiative in four midsized cities.

During the evaluation period, the IDB opted for a change in its business model with Chile, making more intensive use of PBL/PBP instruments, which meant lower transaction costs and swifter disbursements. The IDB used its PBL/PBP loans to support policy reforms of great importance for the country. The policy conditions included in the loans were mostly of medium and high depth. The IDB provided support for reform processes from their inception, in the form of substantial technical cooperation funds. Nonetheless, it should be noted that in the education, labor market, and competitiveness sectors, the final tranches with deeper conditions have not yet been approved, meaning that outcomes will depend on the new government's political will to work in the established direction.

The IDB also supported Chile with knowledge products financed by technical cooperation funds, as well as fee-for-service (FFS) arrangements that were highly valued by counterparts in the country, offsetting the high costs of financing. Two thirds of the technical cooperation operations included knowledge products, and more than half supported knowledge products of a public nature, with the potential to benefit the entire region. As part of its financial offerings, the IDB included a technical cooperation package that was used to leverage loan resources, open up new areas of intervention, and expand the knowledge base in response to government demand. At the same time, Chile has been the leading user of FFS arrangements with the Bank and is the only country that has prepared a framework agreement to simplify the contracting process for these services. FFS contracts with the IDB are financing high-quality technical studies in relevant areas as an input into decision-making. Compared with fee-based services from other international organizations, the IDB's FFS contracts are notable for their enhanced adaptation to the local context. The IDB would benefit from planning of a more strategic nature in relation to its nonreimbursable resources, with a view to including these as part of a broader strategy for generating and disseminating knowledge.

Investment loans (SG) were characterized by high operating costs, and execution delays had a negative impact on the IDB's financial competitiveness. The project that was most successfully executed during the evaluation period sought to expand and improve early childhood education, which financed part of the target of the presidential program to expand nursery and preschool coverage, incorporating high quality standards in infrastructure, equipment, and the service model. The investment projects in the legacy portfolio that were not canceled yielded partial results.

In general, the NSG loans were relevant and showed additionality. However, the country strategy did not define the strategic positioning of the private sector windows in the country. The operations under the various windows (the former IIC and SCF, and now IDB Invest) mainly supported the energy sector and access to financing.

In line with the findings of this evaluation, and in the context of preparing a new strategy, OVE recommends that Management should consider the following:

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.

2. 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.

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.

- 3. Promote coordination between the 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.



01

Background to the
Country Program,
2014-2018

- 1.1 Chile is a high-income country with an open economy and a solid institutional framework. Chile is the fifth largest economy in Latin America and the Caribbean in GDP terms and has a per capita income of nearly US\$14,000 (current prices), one of the highest in the region. It has a solid institutional framework and has been a member of the Organization for Economic Cooperation and Development (OECD) since 2010. International trade is significant for the Chilean economy; the combined value of exports and imports tops 50% of GDP and the average tariff is 0.6%. The country's productive structure is dominated by the services sector, which accounts for close to two thirds of GDP. The manufacturing and mining industries represent 12% and 10% of GDP, respectively. The mining industry is dominated by copper, which in 2016 accounted for 41% of exports, with Chile being the world's largest producer and exporter.

A. Macroeconomic and public finance context

- 1.2 Economic growth slowed to an average of 1.9% per year during the country strategy period (2014-2018), compared with 4.6% per year from 2010 to 2014. The slowdown in recent years is partly explained by slower growth in global demand and the end of the commodities super cycle, particularly in the case of copper, the price of which fell by 35% between 2011 and 2016. Both factors had a negative impact on investment and export revenue.¹ The stagnation in productivity and the end of the demographic dividend² also explain the drop in growth.³
- 1.3 Despite this deceleration, the Chilean economy grew at a faster pace than its peers in the region and proved better prepared to deal with external shocks. Between 2014 and 2018, Chile's GDP growth was below the OECD average, but remained around 1.4 percentage points above the average for the region, where the shock to the terms of trade was accompanied by a contraction in 2015 and 2016 (Figure 1.1). The good performance of the Chilean economy is related to its policy of fiscal responsibility and the floating exchange rate. Fiscal policy is guided by the structural balance rule, which determines the level of spending

1 IMF (2016), Staff Report for the 2016 Article IV Consultation, p. 30.

2 Chile benefited from a significant demographic dividend spurred by its growing working age population and rising female labor force participation rate. World Bank Group (2017), The Republic of Chile Systematic Country Diagnostic.

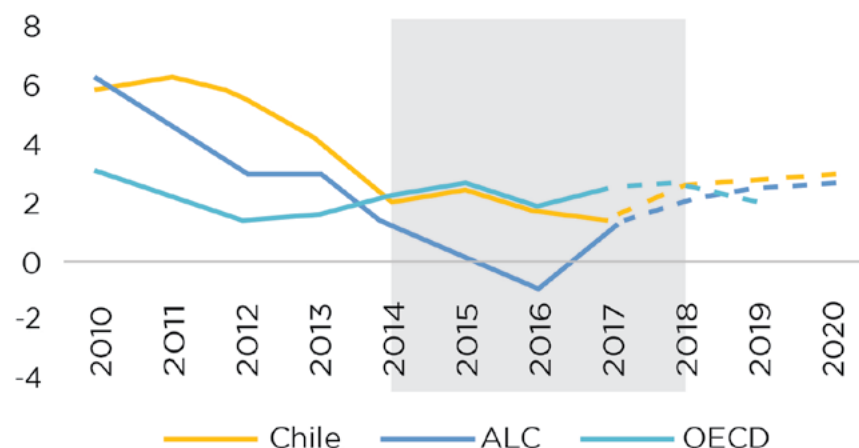
3 The decline in total factor productivity (TFP) in Chile subtracted close to two percentage points from annual GDP growth between 2014 and 2016. The fall in TFP was faster than in Colombia, Mexico, and Peru, and was even greater than in other OECD countries with natural-resource-intensive exports, such as Australia, Canada, and Norway.

and establishes the framework for the budget law⁴ (Annex, Figure 1). The flexible exchange rate helps to correct external imbalances and absorb shocks. This allowed Chile to offset falling commodity prices and the slowdown in external demand by applying countercyclical fiscal and monetary policies (Article IV, IMF, 2016).

Figure 1.1
Real GDP growth
(percentage annual
change)

Source: International Monetary Fund (IMF), OECD

Note: The shaded area corresponds to the country strategy period. The dotted lines represent IMF and OECD projections.



1.4 Chile changed its financing strategy, moving away from short-term bank borrowing towards longer-term financing through bonds. Chile's country risk remains the lowest in the region, assuring it access to financial markets at competitive rates. Chile's borrowing policy has been emphasizing bond issuance on domestic and international markets, with the aim of boosting fiscal liquidity and deepening medium and long-term benchmark rates in the fixed-rate market (Figure 1.2).⁵ Between 2014 and 2017, Chile placed 10 bonds on the local market for around US\$5.648 billion and €4.920 billion with tenors of between 10 and 30 years. Chile also issued bonds in local currency worth about Ch\$9.6 trillion and about 362 development units (UFs)⁶. Within the debt management strategy, the space dedicated to multilateral borrowing has been limited.⁷

4 In 2014, the new government decided that the structural balance should converge to 0% of GDP by 2018. Structural parameters were revised in 2015 to reflect a 0.25% of GDP reduction in the structural balance each year from 2015 to 2018.

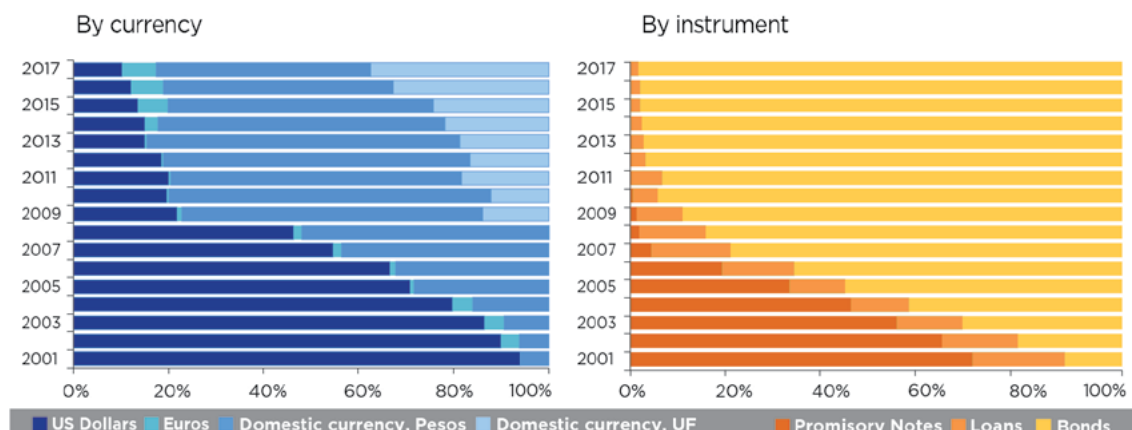
5 Central government gross debt has remained at relatively low levels. However, after falling to a historic low of 3.9% of GDP in 2007, the debt has undergone a sustained increase, reaching 23.6% of GDP in 2017. A shift in the composition of the debt has improved the risk profile. Foreign-currency-denominated debt fell from 94% in 2001 to 17.6% in 2017, mitigating the effects of peso depreciation upon the level of government debt. At the same time, liabilities in the form of bonds rose from 12% to 98% over the same period, displacing loans and promissory notes, which are short-term instruments subject to variable interest rates. Bonds, on the other hand, are longer-term instruments with fixed interest rates.

6 Source: http://www.dipres.gob.cl/598/articles-169520_doc_pdf.pdf. Note: 1UF=US\$44.25 (1 June 2018).

7 In 2014, the available borrowing space for loans from multinational institutions stood at US\$300 million, rising to US\$500 million between 2015 and 2018.

Figure 1.2
Central
government debt
composition,
2001-2017 (%)

Source: Chile
Budget Directorate



B. Productivity and competitiveness context

1.5 The weak productivity performance remains a structural challenge in Chile. Multiple factors affect productivity growth, including a lack of diversification of the production matrix and low levels of innovation. According to some estimates, TFP stagnated in Chile at the end of the 1990s and began to decline from 2007 onwards (Universidad Adolfo Ibáñez/Corporación de Fomento de la Producción, 2015). This is the result, in part, of the limited diversification of production and exports. Chile's economy is concentrated in activities of low value and complexity, such as natural resource extraction, and there are few knowledge intensive sectors.⁸ The ability to innovate and adapt to technological change is a key factor underpinning growth in productivity. Despite this, Chile's performance with respect to innovation indicators is weak compared with other countries. Research and development (R&D) spending represented only 0.4% of GDP in 2015, compared with 0.7% in Latin America and 2.4% in the OECD. Likewise, while the private sector accounts for 64% of R&D spending in the OECD, private spending is no more than 35% in Chile and is concentrated in a limited number of companies. Other factors that affect productivity growth, albeit to a lesser extent, are limited management capacities in small and medium sized enterprises (SMEs) and gaps in human capital and infrastructure.⁹

1.6 In terms of the stock of infrastructure, Chile is behind its peers in the OECD and, in some cases, its peers in the region. The supply of transportation infrastructure, for example, is below

⁸ The mining sector accounted for close to 10% of GDP and more than 40% of exports during the evaluation period, and it has exhibited a systematic decline in productivity since 2000 (OECD, 2017).

⁹ See <http://www.comisiondeproductividad.cl/wp-content/uploads/2017/01/CNP-ANUAL-2016-FINAL-.pdf>

average for Latin America and the Caribbean and is among the least extensive in the OECD. The length of the road network (78,000 km in 2010) has remained largely unchanged since 1990, although the share of paved network has increased. In terms of power generation capacity (kilowatt hours per worker) and telecommunications (number of lines per worker), indicators are within the expected ranges. However, if indicators such as technical losses in electricity generation and distribution and road quality are used, Chile remains far behind its peers in the OECD (World Bank, 2017). The main factors hindering investment in infrastructure include limited planning and bottlenecks in project implementation (mainly environmental and social issues). In the electricity sector, where the IDB's participation was substantial over the evaluation period, an improvement program was launched with a focus on reducing the cost of electricity. Key reforms included redesign of the auction system and the approval of the Electricity Transmission Law and the Tax Equity Law (Annex, Box 1).

- 1.7 In terms of the business environment, Chile is one of the leaders in the region. Different rankings place the country in a privileged position within the region—firstly, according to the Global Competitiveness Index¹⁰ and the Economist Intelligence Unit,¹¹ and secondly, according to Doing Business.¹² The favorable environment for business is mainly the result of the effective functioning of Chile's market economy, the sophistication of its capital markets, and its degree of economic openness. Despite this, the private sector encounters restrictions in terms of the size of the domestic market and access to credit.¹³ On the regulatory front, businesses face challenges in paying taxes and creating new companies, and in terms of labor market skills.

C. Social context

- 1.8 Economic growth and social protection policies have led to significant social progress, including an extraordinary reduction in poverty. Between 2010 and 2015, poverty in Chile (measured as the proportion of the population living on less than US\$4 per day) fell from 13% to 8%. The poverty rate in LAC stood

10 <http://reports.weforum.org/global-competitiveness-index-2017-2018/countryeconomy-profiles/#economy=CHL>.

11 <https://www.eiu.com/public/signup.aspx>

12 <http://www.doingbusiness.org/-/media/wbg/doingbusiness/documents/profiles/country/chl.pdf>

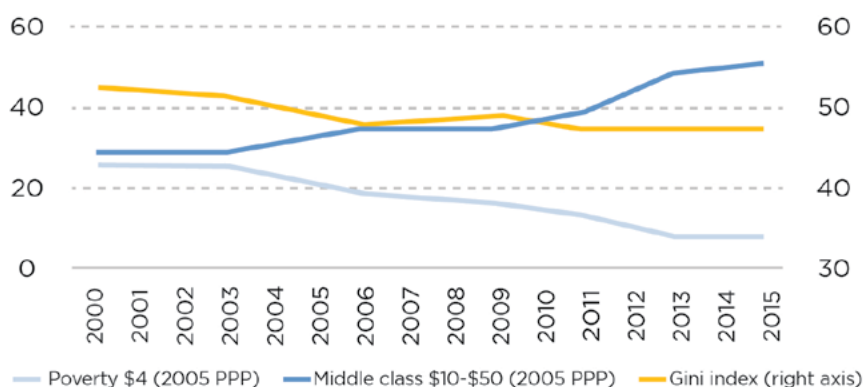
13 Constraints on access to financing for small and medium-sized enterprises (SMEs) are significant. Only 18.6% of commercial loans go to these types of enterprises, one of the lowest proportions in the OECD and below those in other countries in the region, such as Colombia (26%) and Brazil (40%). Economic Intelligence Unit, Chile Financial Services Report, January 2018.

at around 23.6% on average in 2015.¹⁴ The middle class (the percentage of the population with a daily income of between US\$10 and US\$50) surpassed 50% of the population in 2015 (Figure 1.3). Labor income and government transfers under social protection programs (Chile Solidario, Seguridades y Oportunidades, Ingreso Ético Familiar) account for a large part of the reduction in poverty over the last decade.¹⁵

Figure 1.3
Incidence of poverty and middle class

Source: World Bank, LAC Equity Lab, PPP Purchasing Power Parity.

Right-hand axis: Gini Index



1.9 Despite this progress, Chile remains an unequal society and income disparities persist between vulnerable groups and between regions. Chile's Gini coefficient fell slightly from 0.50 in 2006 to 0.49 in 2015 (latest available data). While this is below the regional average (0.51), it makes it one of the most unequal countries in the OECD (with an average coefficient of 0.31 in 2014). All Chile's regions experienced reductions in poverty, but the differences between them remain significant (Annex, Figure 2), and rural poverty rates are twice those in urban areas. The rate of poverty is higher among indigenous peoples, young people, and women.¹⁶

1.10 In education, Chile's spending as a percentage of GDP is similar to the OECD average, and average years of schooling are high, but problems of quality and educational performance persist. Chile spent 5.2% of GDP on education in 2015, the same as the OECD average. There are differences in spending by level of education, however, and annual spending per student is low compared with developed countries (although similar to countries such

¹⁴ LAC Equity Lab: A Platform for Poverty and Inequality Analysis, World Bank. In terms of relative poverty (the proportion of the population with incomes of less than 50% of the national average), a measure used by the OECD, the rate in Chile was 16.1% (2015), which was above the OECD average of 11.3% (2014).

¹⁵ World Bank (2017), op. cit. pp. 56-60.

¹⁶ Poverty rates among the indigenous population have declined over the last decade, but there is still a seven point gap compared with the nonindigenous population. The rate of extreme poverty among indigenous peoples (6.6%) is double that of the general population (3.2%). Youth poverty is twice (18.3%) that registered among adults (9.7%). The gap between men and women is one percentage point. World Bank (2017), op. cit. p. 52.

as Argentina, Brazil, Colombia, and Mexico). In terms of sector indicators (Annex, Table 1), average years of schooling in Chile stand at 11 (one of the highest levels in Latin America and the Caribbean). There have been significant achievements in terms of primary and secondary school coverage, but challenges remain in preschool education. With respect to quality and educational performance (PISA, 2015 report), Chile falls below the OECD average in all disciplines.¹⁷ The last decade has been marked by profound reforms in all levels of education. These reforms addressed issues of financing, administration, and profit-seeking in educational establishments; inclusion; teaching career structures; ensuring quality in education; and the institutional framework for the sector (Annex, Box 2).

- 1.11 In the health sector, Chile has the best indicators in the region, although it continues to face challenges in terms of human resources. Health spending has increased, but it remains lower than in most OECD countries.¹⁸ Out-of-pocket spending (as a proportion of final household consumption) is higher than the OECD average (4.1% versus 3%). Indicators such as life expectancy and infant mortality have improved (Annex, Table 2). Although health insurance coverage in Chile is almost universal (95.3% according to the 2015 National Socioeconomic Profiling Survey (CASEN)), the public system is overburdened: the number of doctors, nurses, and hospital beds is relatively low, as is the use of preventive services.
- 1.12 Chile's labor market is characterized by low levels of productivity and social security protections. Women and young people experience the greatest disadvantages in the labor market. A third of all work contracts in Chile are temporary, one of the highest figures in the OECD. Workers hired under these contracts tend not to receive any benefits or make social security contributions. Although the female labor force participation rate has been increasing, reaching 47.4% in 2015, it remains very low compared with the male participation rate (71%). The youth labor force participation rate is also low.¹⁹ Contribution density is low: 33% of women and 23% of men belonging to the social security system have never made a contribution (Social Protection Survey, 2015). As a result, pension levels are low, standing at an average of US\$333 for the mandatory contribution pillar, equivalent to 86% of the minimum

17 Chile obtained the following results in the 2015 PISA tests: science, 447 (compared with an OECD average of 493); reading, 459 (493 in the OECD); and math, 423 (490 in the OECD).

18 Per capita spending adjusted for purchasing power parity was US\$1,977 in 2016, compared with US\$4,003 in the OECD. Spending as a proportion of GDP was 8.5%, compared with 9% in the OECD.

19 At 18% of the population aged 15-19 years in 2015, Chile has the OECD's sixth highest proportion of NEETs: young people who are "Not in Education, Employment, or Training".

wage (2016). The replacement rate is between 34% and 45%, compared with an average of 63% in the OECD (IMF, Article IV). This has the greatest impact on the middle class (which does not have access to the basic solidarity pension), women (who have an early retirement age and longer life expectancy), and self-employed workers (who often have discontinuities in contribution periods). Chile has been implementing measures to increase employment productivity and worker protections,²⁰ and from 2014 onwards, progress was made on labor market reforms aimed at improving collective bargaining. In the area of employability and vocational training, the program “+Capaz [+Capable]” was created, with a focus on vulnerable groups. With respect to pensions, adjustments were made to the basic solidarity pension, access was expanded to the old-age solidarity pension contribution, and the gradual elimination of health insurance payments for seniors continued.

D. Institutional context

- 1.13 Chile is a benchmark in the region in terms of institutional capacity and quality, although limitations persist at the subnational level and in the quality of public services. Chile’s scores with respect to 2016 Global Governance indicators are around the average for OECD countries and much higher than the regional average. Nonetheless, at the subnational levels—both regional and municipal—there are persistent limitations in fiscal and administrative terms. These are mainly associated with the capacities of subnational entities, delimitation of powers, and administration of resources.²¹
- 1.14 Significant reforms were pursued during the evaluation period in the area of decentralization and regional development. The main reforms in this area include: (i) the constitutional reform concerning the democratic election of the executive branch of regional governments (Law 20,990 of 2016), pursuant to which elected governors are accountable to the inhabitants of their regions; (ii) the Municipal Management Strengthening and Professionalization Law (Law 20,922 of 2016), which promotes professionalization among employees by ensuring that their remuneration is equivalent to that offered by the central government; and (iii) the Regionalization Strengthening Law

20 According to the 2011 Final Report of the Commission to Review the Labor Intermediation and Training System (known as the Larrañaga Commission Report), the training system was regressive as it offered tax support to medium and high-income wage earners, resources were allocated to individuals that already had work skills rather than to the most vulnerable groups, and training did not generate higher work earnings or improved employability.

21 World Bank (2017), op. cit. pp. 10, 102-105.

(Law 21,074 of 2018), which strengthens the ability of regional governments to operate under elected authorities, incorporating new policy planning, design, and execution skills.

1.15 Despite the aforementioned progress, Latinobarómetro surveys show that Chileans are dissatisfied with public service delivery, including both social services (health and education)²² and the justice and security system. Confidence in public institutions has deteriorated, giving rise to a substantial modernization agenda in public management with a marked emphasis on issues of transparency and integrity. Though Chile approved a Transparency Law in 2019, it was not until 2015 that the government created the Presidential Advisory Council against Conflicts of Interest, Influence-Peddling, and Corruption, which made more than 230 policy recommendations aimed at improving transparency and integrity. According to data from the Anticorruption Observatory, which monitors compliance with the Council's proposals, levels of compliance and quality have been high with respect to reforms in the area of transparency and integrity (Annex, Box 3). Nevertheless, Chileans still consider corruption to be the second biggest problem in the country, after crime (Latinobarómetro, 2017).

22 In education, the main source of dissatisfaction concerns inequity in quality and access. In health, dissatisfaction is related to high out of pocket spending and long waiting lists.



02

The IDB Program in Chile

A. Strategic positioning

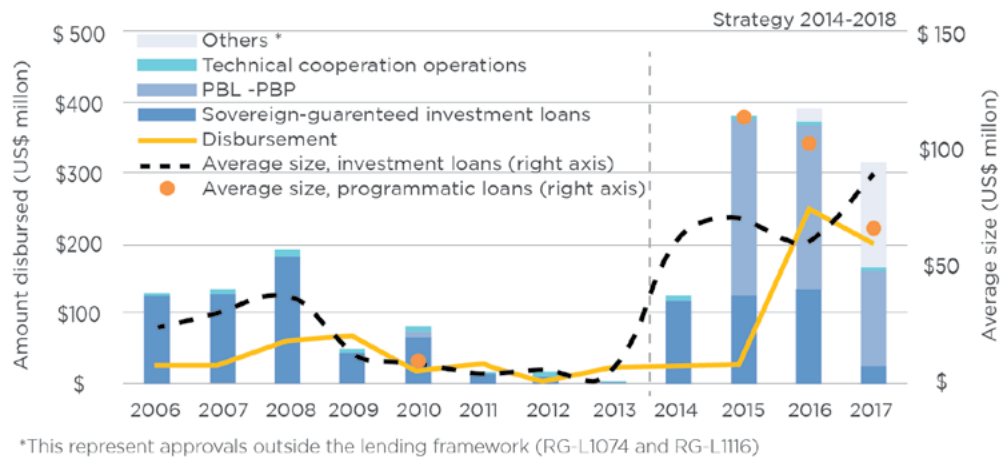
- 2.1 The country strategy with Chile for the 2014-2018 period was based on a diagnostic assessment that emphasized the slowdown in convergence towards the development levels of advanced countries. According to the country strategy diagnostic assessment, Chile is at a critical phase of its development, namely the “middle-income trap,” characterized by slowing economic growth and lagging productivity levels that hinder its transition to a higher value-added economy. In this context, the country strategy identified a window of opportunity for the IDB to develop a program that can be used as a model for other countries. According to the country strategy: “the challenge for the Bank is to maintain its position as a strategic development partner, exploring new niches for intervention and innovative mechanisms designed for a country with the economic and social characteristics attained by Chile. This will also allow the Bank to support good practices and facilitate their dissemination within the framework of South-South cooperation.” The country strategy incorporated most of the recommendations from the previous CPE (Annex, Box 4).
- 2.2 The objective of the country strategy was to support the government’s plan to achieve inclusive, sustainable growth. To this end, work was proposed on three strategic pillars: productive development, with emphasis on competitiveness and innovation, energy, and public management; human capital development, with an emphasis on education, job training, and health; and regional development, with an emphasis on regional equity (Annex, Table 3). The country strategy did not include an explicit strategy for the private sector windows, but rather proposed that these windows should leverage business opportunities in the priority areas identified in the country strategy.²³ The objectives set out in the country strategy were aligned with the government’s program, especially with respect to one of the reforms—the education reform—proposed in the Chile de Todos program; the decentralization process driven by the new Constitution; institutional strengthening and effectiveness and efficiency in the electricity sector; and State modernization processes, with emphasis on issues of integrity and transparency. The country strategy positioned the IDB as a strategic partner in a number of sectors (education, energy, productivity), and it succeeded in identifying niches for intervention (integrity and transparency, indigenous peoples) and in effectively adapting the range of instruments on offer to respond to country requests in a context of policy reform.

23 Until the country strategy guidelines were changed in 2015 (document GN-2468-7), the private sector windows were not considered in the preparation of country strategies.

2.3 The Bank's operations program more than doubled the level of approvals envisaged in the country strategy's lending framework. The Bank had anticipated sovereign guaranteed approvals totaling approximately US\$500 million for the period 2014-2018. In this scenario, gross disbursements were expected to reach US\$381 million, with a positive net capital flow for the IDB of around US\$27 million. In practice, the Bank approved US\$1.175 billion in sovereign guaranteed loans between January 2014 and December 2017 (equivalent to US\$293 million per year), and gross disbursements were around US\$855 million. Net capital flows were negative for the Bank, at US\$191 million in 2017. The higher levels of approvals were in response to increased borrowing demands from the government. The fiscal deficit exceeded the projection. Although the debt policy emphasized bond issues, the IDB found a financing space that enabled it to exceed average approvals in previous cycles (Figure 2.1) and surpass approval levels by other multilaterals, such as the World Bank.²⁴ The average size of operations was US\$70 million, compared with US\$6 million in the 2011-2013 period.

Figure 2.1
Amount approved
by type of
instrument and
disbursements

Source: OVE,
corporate database.



2.4 Of total sovereign guaranteed approvals between 2014 and 2017, almost half were loans to support policy reforms (PBLs and PBPs). These years were distinguished by the use of PBLs and PBPs. In total, six operations were approved for US\$555 million, of which 77% (US\$425 million) had been disbursed as of April 2018. The PBL operations (US\$290 million) were approved in the energy (CH-L1136), education (CH-L1095), and labor

24 The World Bank approved six operations for US\$279.5 million over the period and disbursed US\$144.27 million. Two operations were investment loans (education and health), approved in 2017 (active); one was an investment loan in water and sanitation, approved in 2015 (canceled in 2016); and one was a development policy loan in education, approved in 2015 (completed). The German cooperation agency, Kreditanstalt für Wiederaufbau (KfW), approved US\$147.8 million.

market (CH-L1135) sectors. There are still some undisbursed tranches in the last two sectors, while the program in energy has been completed. The PBP operations (US\$265 million) were approved in the sectors of public management (integrity and transparency, CH-L1110 and CH-L1111) and competitiveness (productive diversification, CH-L1134). The programmatic series was completed in public management, while one operation remains pending in competitiveness (Annex, Table 4).

- 2.5 Investment loans (SG) represented 53% of the portfolio and were characterized by low disbursement levels. Investment loans were present in all strategic sectors of the country strategy. Approvals in the area of productive development totaled US\$147 million: US\$120 million for the productive development financing program (CH-L1098) and US\$27 million for the global services export program (CH-L1138). In public management, US\$48 million was approved for the citizen services program (CH-L1085). In education, US\$125 million was approved: US\$50 million to strengthen sector management (CH-L1081) and US\$75 million for the early childhood education program (CH- L1082). In regional development, US\$90 million was approved for the neighborhood revitalization program (CH-L1085). In the crosscutting area of indigenous peoples' development, US\$40 million was approved (CH-L1105). In the area of dialogue for regional integration, US\$150 million was approved for the Agua Negra tunnel regional integration project (RG-L1116 and RG- L1074) (Annex, Table 5). In all, 20% of funds approved during the period were disbursed. Section D analyzes the bottlenecks that affected the implementation of investment projects and the disbursement profile.
- 2.6 Non-sovereign guaranteed (NSG) loan approvals totaled US\$588.7 million from 2014 to 2017.²⁵ This amount corresponded to 20 operations by the different private sector windows: the former Inter-American Investment Corporation (IIC) with eight loans for US\$65.8 million; the former Structured and Corporate Financing (SCF) Department with three loans for US\$171.9 million; and IDB Invest with nine loans for US\$351 million (Figure 2.2 and Annex, Table 6).²⁶ In terms of sectors, operations were focused on the productive development pillar,

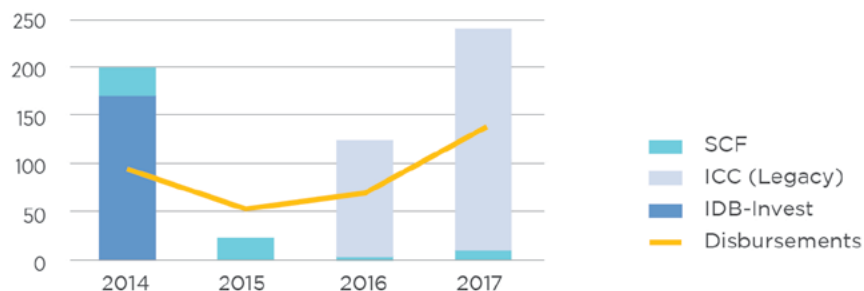
25 The International Financial Corporation (IFC) approved eight projects for US\$445 million over the same period: six loans (US\$335 million) and two equity operations (US\$110 million).

26 Two credit lines were also approved under the Trade Finance Facilitation Program (TFFP), for a total of US\$60 million. The Multilateral Investment Fund (MIF) approved 16 projects for US\$11 million.

supporting mainly the energy sector and access to financing. In terms of instruments, most were loans. The energy loans were supplemented by concessional financing.²⁷

Figure 2.2
Amount approved
by type of
instrument and
disbursements

Source: OVE,
corporate database



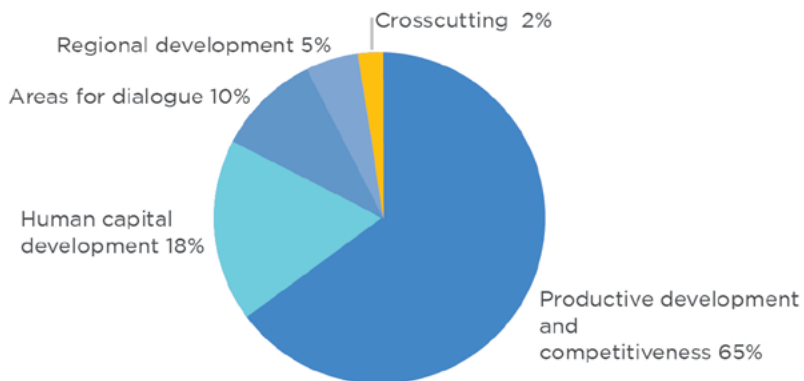
2.7 In terms of sectors, the IDB Group’s program was aligned with the strategic objectives of the country strategy, but with a strong concentration in the productive development and competitiveness pillar. Sixty-five percent of SG and NSG funds²⁸ approved during the evaluation period (US\$1.765 billion) were concentrated in this pillar: US\$505 million for energy, US\$351 million for productivity and innovation, and US\$278 million for public management. The portfolio’s sector emphasis was aligned with the diagnostic assessment of the competitiveness and productivity gaps that hinder Chile’s convergence with the OECD countries. Under the strategic pillar of human capital development, US\$315 million was approved (18% of the overall portfolio), with operations concentrated in the education (US\$215 million) and labor markets (US\$100 million) sectors, while just two technical cooperation operations were approved in health. The portfolio under the strategic pillar of regional equity and development has been relatively small, with 5% of overall funding (US\$90 million) in a single program. It should be noted that 10% of the portfolio is in dialogue areas, including a regional program for Argentina and Chile (Agua Negra Tunnel) and a crosscutting program for indigenous development and promotion (Figure 2.3).

27 Specifically, the Canadian Climate Fund for the Private Sector in the Americas (C2F), the China Co-Financing Fund for Latin America and the Caribbean (CHC), and the Clean Technology Fund (CTF).

28 The NSG portfolio is focused almost exclusively on the objective of productive development and competitiveness: 57% in electricity, 22% in trade (Trade Finance Facilitation Program), and 15% in productivity and innovation (including leasing and factoring).

Figure 2.3
 Approved loan portfolio by priority area, 2014-2017 (SG, NSG)

Source: OVE corporate database



2.8 The Bank approved US\$15 million in nonreimbursable technical cooperation operations that were aligned with the strategic objectives of the country strategy and the operations program. As in the case of the loan portfolio, priority was given to the productive development and competitiveness pillar, with 34% of total approved technical cooperation funding, followed by human capital development with 19% and regional development with 16%. As a percentage of the loan portfolio, technical cooperation funding was high compared with similar countries (1.3% versus 0.7%).²⁹ The IDB continues to execute most technical cooperation operations (88%), responding to the government’s preference and the need to reduce transaction costs. Technical cooperation operations were used strategically to support the loan portfolio and leverage resources.³⁰ Moreover, two thirds of technical cooperation projects supported knowledge products, of which half are considered to be public goods (Annex, Table 7).³¹

2.9 The IDB billed US\$1.2 million in fees for services provided (FFS). The IDB signed five FFS contracts with the Government of Chile. Chile has used this instrument more than any other

29 OVE compares Chile with a group of similar countries in terms of per capita income and size of economy, including Argentina, Brazil, Colombia, the Dominican Republic, Ecuador, Mexico, and Peru.

30 Excluding emergency technical cooperation agreements, 56% of the 41 technical cooperation operations approved over the period were linked to a loan: 14 provided parallel support for 10 loan operations—through studies and operational support—and 11 supported nine future operations with studies and seminars (only five of the nine proposed operations were ultimately approved). The average time from approval of the technical cooperation operation to approval of the loan was one year. Technical cooperation funds have been used to leverage loan resources: each dollar invested in technical cooperation funding is associated with approvals of US\$76.81 under future loans (this analysis of returns also includes technical cooperation funds that did not result in approved loans).

31 Seventy-three percent of technical cooperation operations approved over the period have generated knowledge products, including studies, impact evaluations, platforms for managing and exchanging knowledge, and compilations of lessons learned and international experiences. Half of these operations (53%) have supported knowledge products of a public nature that have the potential to benefit the entire region.

country (Annex, Table 8).³² The entities that signed specialized advisory service contracts with the IDB were the Ministry of Finance, for institutional strengthening of the agencies responsible for implementing the tax reform (completed); the Ministry of Education (MINEDUC), to support design of the school financing system (completed); the Ministry of Housing and Urban Development (MINVU), to define strategic guidelines for implementation of the law on metropolitan areas; and the National Productivity Commission (CNP), with two contracts (in execution): one to prepare a program on regulations affected by new technological advances and sharing economies, and another to conduct a study of the efficiency of hospital management of surgical waiting lists.

2.10 The legacy portfolio was generally aligned with the strategic objectives of the country strategy. This portfolio³³ consists of eight investment loans for US\$393 million in the following sectors: energy (five NSG operations for US\$364 million, for power generation projects), regional development (one operation for US\$80 million, for heritage revitalization), labor markets (job training and labor intermediation), public management (State modernization), and external trade. It also includes 37 technical cooperation operations for US\$27 million. There were two significant total and partial cancellations in the legacy portfolio.³⁴

B. Financial relevance

2.11 IDB financing of Chile's budget is marginal.³⁵ Nonetheless, the IDB accounted for more than half of the total space for multilateral borrowing in Chile. From 2014 to 2017, annual IDB disbursements represented around 50% of the total space for multilateral borrowing, and between 2016 and 2017 the figure was more than 65%.³⁶ The Chilean government prioritized external financing on the bond markets over loan instruments.

32 The IDB introduced the FFS instrument on a pilot basis in 2013 and Chile has been its main user. As of May 2018, 16 operations had been established using this modality in eight countries (Chile, Bolivia, Colombia, Mexico, Ecuador, Peru, Panama, and Costa Rica).

33 The legacy portfolio consists, in the case of sovereign guaranteed loans, of all active projects for which at least one transaction was registered in the Loan Management System (LMS) during the evaluation period, and in the case of an NSG loans, those that had at least one disbursement during the period.

34 Between 2010 and 2013, six operations were totally cancelled for US\$64 million (75% of the amount approved during that period). Most of the partial cancellations related to two performance-driven loans (PDLs) under the regional development pillar.

35 Average annual IDB financing was 0.2% of Chile's budgets during the evaluation period. Source: Laws 20,981 (2016); 20,882 (2015); 20,798 (2014); and 20,713 (2013).

36 WB disbursements represented around 8% of the space for multilateral borrowing.

These financing alternatives are different. Bonds are a bullet-type instrument: funds arrive at the moment of issue and are subject to fixed interest rates, semiannual interest payments, and terms that vary between 4 and 30 years. Loans issued by the IDB and the World Bank charge variable interest rates (equivalent to the 90/180 day LIBOR rate plus a margin), interest is paid semiannually, and disbursement and grace periods are pre established. In addition, a commitment and/or entry fee is charged.³⁷

2.12 The interest rates that the IDB charges have been uncompetitive compared with those available to the country on international markets. OVE estimates of trends in financing costs for the different alternatives³⁸ show that although it was more expensive to borrow on external markets than from the IDB from 2000 to 2003, the relationship, in the case of a dollar-denominated 10 year loan, becomes more volatile from that moment onwards, but the spreads are more limited. During the evaluation period, the spread favored the IDB from 2014 to 2015, while between 2016 and 2017 it favored the external markets (Figure 2.4). In the case of a World Bank loan, the average cost from 2011 to 2017 was the same as a sovereign bond, whereas the average cost of an IDB loan was eight basis points higher (Table 2.1).

Figure 2.4
Interest rate on treasury bond issues and the IDB rate (annual percentage)

Source: authors' calculations based on data from the IDB, Bloomberg, and the Ministry of Finance.



Note: The IDB rate corresponds to the fixed rate 90-day LIBOR mid-swap rate for the indicated term, plus the funding cost and the IDB spread.

37 The IDB's Flexible Financing Facility (FFF) offers flexible repayment options (subject to the weighted average life), including bullet payments at 15 years (INV) and at 12.75 years (PBL). The IDB also offers the option of a fixed rate, in order to mitigate interest rate risk.

38 Given that each alternative is subject to different financial conditions, adjustments need to be made in order to compare them. The main one is to express the IDB's variable interest rate as a fixed rate during the relevant period.

Table 2.1. Comparison of Chile’s financing costs in the external market versus IDB and World Bank loans (U.S. dollar-denominated debt)

	Cost of financing for Chile on external markets (1)			Interest rates, World Bank loans (2)		Interest rates, IDB loans (3)		Difference: IDB - market cost		Difference IDB - World Bank
	10-yr treasury bond (annual %)	30-yr treasury bond (annual %)	U.S. 10-yr treasury bond + EMBI (annual %)	10-yr (annual %)	10-yr (annual %)	30-yr annual %	10-yr (basis points)	30-yr (basis points)	10-yr (basis points)	
Jan/2000	8.36%	-	8.15%	-	7.57%	7.64%	-79	-	-	
Jan/2001	7.72%	-	7.27%	-	6.19%	6.43%	-152	-	-	
Jan/2002	6.72%	-	6.74%	-	5.45%	5.86%	-127	-	-	
Jan/2003	5.65%	-	5.68%	-	4.61%	5.45%	-105	-	-	
Jan/2004	5.10%	-	5.01%	-	4.45%	5.23%	-65	-	-	
Jan/2005	5.13%	-	4.83%	-	4.55%	5.05%	-59	-	-	
Jan/2006	5.68%	-	5.17%	-	4.66%	4.81%	-101	-	-	
Jan/2007	6.15%	-	5.57%	-	5.10%	5.23%	-105	-	-	
Jan/2008	5.37%	-	5.36%	-	4.59%	5.08%	-78	-	-	
Jan/2009	4.67%	-	6.27%	-	2.61%	2.91%	-205	-	-	
Jan/2010	3.33%	-	4.79%	-	4.80%	5.46%	147	-	-	
Jan/2011	4.09%	-	4.53%	4.11%	4.28%	5.09%	19	-	16	
Jan/2012	2.94%	-	3.58%	2.78%	2.72%	3.38%	-22	-	-6	
Jan/2013	2.43%	3.77%	3.02%	2.52%	2.82%	3.77%	39	0	30	
Jan/2014	3.70%	4.92%	4.39%	3.65%	3.87%	4.68%	17	-24	22	
Jan/2015	2.89%	4.00%	3.74%	2.85%	2.90%	3.29%	1	-70	5	
Jan/2016	3.38%	4.48%	4.80%	3.09%	3.19%	3.64%	-19	-84	9	
Jan/2017	3.38%	4.01%	3.93%	3.49%	3.28%	3.52%	-11	-49	-21	
Jan/2018	3.36%	3.75%	3.68%	3.62%	3.50%	3.62%	14	-13	-12	

(1) The market rate for the most recent bond issue is used, adjusted by the slope of the curve based on the amount of time that has elapsed since the date of issue. In the case of 10-year and 30-year bonds, slope adjustments are 0.2% and 0.02% per year, respectively. (2) The World Bank rate corresponds to the fixed rate 180-day LIBOR mid-swap rate for the indicated term, plus the World Bank spread. (3) The IDB rate corresponds to the fixed rate 90-day LIBOR mid-swap rate for the indicated term, plus the funding cost and the IDB spread.

Source: Authors' calculations based on data from the IDB, World Bank, Bloomberg, and the Ministry of Finance.

2.13 Comparing the financial yield of a sovereign bond with that of an IDB project also reveals that the latter are relatively costly and even more costly if the actual execution profile of the operations is taken into account. OVE calculated the financial yield on IDB loans and compared it with that of sovereign bonds. To that end, it calculated the IDB's internal rate of return (IRR) as an investor in every loan financed since 2000, comparing it with that of a sovereign bond. The IRR was calculated for each operation on an *ex ante* basis, i.e., based on the disbursement schedule proposed in the loan contract,³⁹ and on an *ex post* basis, i.e.,

³⁹ In the case of the *ex ante* analysis, a uniform flow of disbursements was determined for the period established in the contract for each operation, and a uniform flow of amortizations was also calculated beginning the year after the grace period and continuing until the end of the credit period. For the credit fee, the historical flow reported for each operation was taken where available; otherwise, the fee was estimated by applying the commission to the difference between the approved capital and the

according to the actual distribution of loan disbursements. An additional estimate included the technical cooperation flows that the IDB has offered to Chile (Annex, Table 9). Several observations can be made based on this comparison:

- a. The IRR on IDB loans is higher than on a sovereign bond of similar maturity. This difference tended to increase from 2005 to 2011 but fell to almost zero in 2015 and has since increased to around 55 basis points in 2017 in the case of the *ex ante* IRR and to 67 basis points in the case of the *ex post* IRR. The gap varies by instrument and is largest in the case of investment loans.
- b. The difference between the *ex ante* and *ex post* IRRs averaged 10 basis points. The differential increased between 2011 and 2015, averaging 48 basis points. This is explained by execution delays, which meant that project disbursements took place later than expected and higher fees were paid. IDB loans would be more competitive if execution hewed more closely to project contract conditions.
- c. Technical cooperation funds help to improve the competitiveness of IDB loans, neutralizing the financial advantage of sovereign bonds. Flows of technical cooperation funds offset the additional cost of IDB loans, in terms of IRR, compared with sovereign bonds over the 2000-2007 period, although in recent years this effect has been more limited.

C. Nonfinancial relevance

2.14 Despite the challenges that the IDB faces in competing on a financial basis in Chile, other factors make it attractive to the government. This section presents examples of the IDB's value proposal based mainly on the clients' perceptions, supplemented by evidence in cases in which the latter could be documented.

2.15 Counterparts interviewed by OVE in the country highlighted the IDB's contribution in its role as honest broker, helping to contrast ideas, validate achievements, and identify opportunities for improvement as an impartial third party. For example, the early evaluation of the Strategic Investment Fund (FIE)—conducted by the IDB (CH-T1151) two years after that institution was created—allowed the authorities to obtain independent technical feedback and resolve differences in opinion between the various public institutions (the Ministry of Economy, Development, and Tourism and CORFO) regarding the fund's role and powers. In issues of integrity and transparency, the IDB

disbursed amount, adjusting approved amounts by the percentage underexecuted. For the flow of interest payments, the prevailing swap rate in the market on the contract signature date was applied, to which the IDB spread was added.

was always perceived as a neutral actor able to mediate dialogue between the various political actors and with civil society. The IDB supported the civil society institution that manages the observatory for monitoring the government's compliance with its commitments regarding integrity and transparency. Of further note is the IDB's support for improving prevention and response capacity for vector-transmitted diseases on Easter Island. Here, the IDB's neutral position allowed it to establish and foster coordination between the central government and the provincial government.

- 2.16 The counterparts also highlighted the IDB's role in helping to improve coordination between agents. In the area of labor markets and education, for example, the IDB helped to coordinate several public institutions. In the framework of the implementation of labor market operations, the IDB played a central role in coordinating the Ministry of Labor (MTPS), the National Training and Employment Service (SENCE), the Ministry of Finance (SHCP), and CORFO. Within the framework of analysis of the pension system, dialogue between key stakeholders was deepened: Pensions Superintendency, SHCP, and MTPS. The IDB also provided support for workshops and roundtables between the MTPS and Congress in the areas of labor intermediation and pensions. In education, the IDB fostered dialogue with international experts, helped to improve interagency coordination, and sought to promote strategic partnerships. In competitiveness, as part of the preparation of the global services loan, the Bank promoted deeper dialogue both within public sector agencies and between the public and private sectors.
- 2.17 The Bank took on the role of facilitator of innovative, high risk projects (regional integration) and niche projects (indigenous), as well as areas of intervention that required high-quality technical studies (education, pensions). The Bank's role in the regional integration agenda has been critical. The Bank has supported these processes from the beginning, financing key studies, such as the Argentine-Chilean connectivity study and preinvestment studies for electricity integration under the umbrella of the Andean Electric Interconnection System (SINEA), and preserving institutional memory across changes of government. Given the difference in risk profiles between Argentina and Chile, it is likely that Bank financing for the Agua Negra Tunnel has ensured the viability of the project. In the case of the Indigenous Promotion Program, the IDB found a niche involving support for the implementation of a guarantee fund for businesses in indigenous communities. In pensions, regional technical cooperation operations and regional public goods (the Latin American and Caribbean Pension Network) supported the

design of innovative pilot projects to promote voluntary saving, incorporating elements of behavioral economics, technology, and financial education.

- 2.18 The IDB helped to provide visibility and continuity in policy reforms. The IDB's support for the education sector is a case in point; here, the IDB is seen as a partner with strong technical capacity, able to bring an independent, long-term perspective to the reform process. In energy, government representatives indicated that the IDB's participation in the reform process is seen as a vehicle for disseminating the country's experience throughout the region.

D. Efficiency of the operations program

- 2.19 The disbursement profile of the IDB's investment portfolio in Chile was slightly below the average for comparable countries and for the IDB as a whole. Although preparation and execution periods for investment projects in Chile were around average for the IDB,⁴⁰ the disbursement profile for active investment projects in Chile is below the disbursement curve for the IDB. Moreover, project approved since 2014 are below the historic disbursement curve for Chile (Annex, Figure 3). Average execution periods for the investment portfolio were six years, and where operations received extensions (25%) these averaged 12 months. The execution period for PBLs and PPPs averaged two years and two months without extensions. In the case of non-sovereign guaranteed operations, preparation and disbursement periods were generally lower in Chile than in comparable countries. By sector, preparation periods for active non-sovereign guaranteed energy projects were in line with those of projects in comparable countries (10.8 months), and disbursement periods were shorter (6.3 months versus 8.2 months). Preparation and disbursement periods for financial markets operations were shorter (7.7 months versus 8.4 months, and 7.1 months versus 8 months, respectively) (Annex, Figure 4 and Table 10 present the information by country and by window).
- 2.20 The main factors that affected execution of the loan portfolio in Chile were exogenous in nature. Although these were identified as risks in the projects, mitigation measures were not always effective. The most important factors included changes in public

40 On average, the period between inclusion in the pipeline and first disbursement was 24 months: 10 months for approval, 10 months for eligibility, and four months for first disbursement. The greatest delays were seen under two projects: the Promotion and Development of Local Solar Technologies in Chile (CH-X1007), with execution delays associated with institutional changes (creation of the Ministry in 2010 and high turnover among key officials); and the Revitalization of Neighborhoods and Heritage Infrastructure project (CH L1084), which was mainly delayed by the signing of sub-execution agreements with the *municipios*.

sector administration (education, regional development)⁴¹; turnover among line ministry staff (education and labor)⁴²; delays in approving framework laws, such as the demunicipalization of education⁴³ and decentralization of regional governments; and the lack of budgetary space (public management)⁴⁴. Internal factors mentioned included coordination between IDB divisions⁴⁵ and some operational design issues (neighborhood revitalization and SENCE strengthening).⁴⁶

2.21 Although country systems were used, the costs of preparing and executing the operations approved in Chile were higher than in comparable countries. The average cost of preparing and executing an investment operation in Chile (US\$590,000) is slightly higher than in comparable countries (US\$490,000). However, given the relatively small size of operations approved in Chile, the cost per approved dollar for investment loans in the country is eight times higher than for comparable countries (Annex, Figure 5). When the net impact on costs of the size of the operations is separated out, around one third of the differential is explained by the high-level profile of IDB professionals working in/for Chile (Annex, Figures 6, 7, and 8). This is part of the IDB's value proposal in the country, which involves having high-level experts in each of the sectors. In terms of instruments, there is a marked difference in average costs between investment projects and PBLs (US\$369,000), which is also explained in part by the costs of the high-level staff that lead the policy dialogue in the country. Lastly, the cost per dollar of technical cooperation funding approved in Chile (US\$0.23) is also higher than in comparable countries

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- 41 Institutional changes included the creation in 2015 of the Subsecretariat for Preschool Education in MINEDUC; this affected execution of the two early childhood education subcomponents under the investment loan executed by the Ministry (CH-L1082). Changes in SUBDERE's management and the municipios participating in the program (e.g., *Municipio* of Santiago) gave rise to delays in the approval of regional development plans, holding back execution of loan CH-L1084. Lastly, management changes affected execution of the judicial reform support program (CH-L1058), which was part of the legacy portfolio.
- 42 At MINEDUC, since 2014 there have been two ministers and several changes in technical counterparts. This turnover hindered the formation of a solid execution unit for operation CH-L1081 (education management). At the MTPS, there were four changes of minister between 2013 and 2018, which delayed the establishment of an execution unit and the execution of loan CH-L1064 to support SENCE's effectiveness.
- 43 Loan CH-L1081 was affected by the fact that the New Public Education System Law was not approved until November 2017, almost two years after loan approval.
- 44 Although the lack of budgetary space affected execution of the citizen services program (CH-L1085), the project has generated efficiency gains in terms of economies of scale and reduced transaction costs.
- 45 There was a lack of coordination between divisions (SCL/SPH and INE/WSA) during the design of technical cooperation operation CH-T1171, aimed at preventing diseases on Easter Island. This coordination improved during execution.
- 46 In the case of the neighborhood revitalization project (CH-L1084), the government authorities felt that the design was ambitious for a pilot project. The SENCE strengthening program (CH-L1060) included the harmonization of sector information systems.

(US\$0.14), regardless of whether it is being executed by the IDB (Annex, Figure 9). The cost of the Bank's Country Office in Chile is below the average for comparable countries.⁴⁷

47 OVE estimated fixed operating costs based on non-project-related expenses. During the evaluation period, the Chile Country Office's fixed costs were around US\$17.7 million, below those of the Southern Cone Department countries (US\$27 million) and other comparable countries (US\$24 million).



03

Effectiveness of the Operations Program

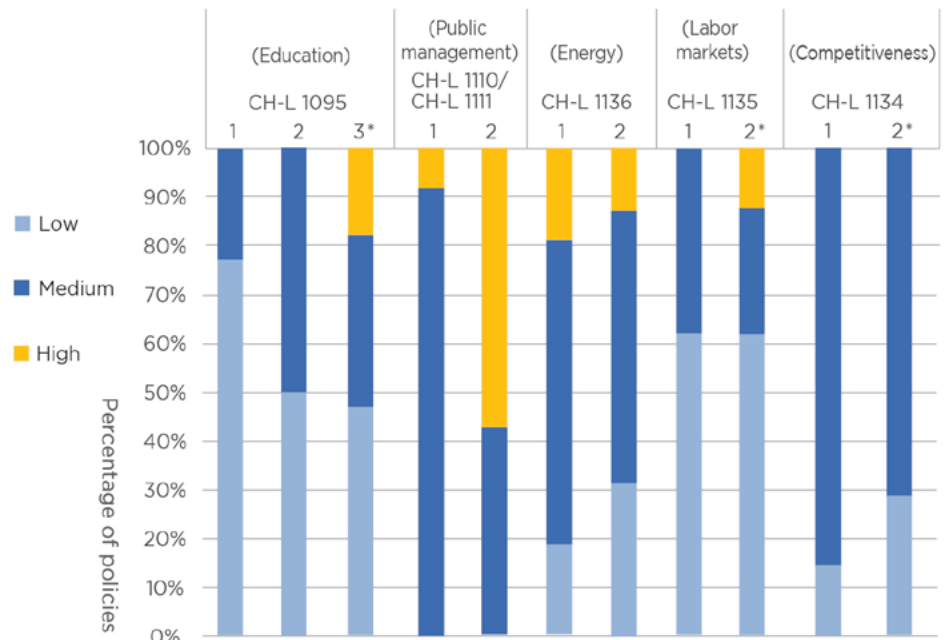
3.1 This section analyzes the effectiveness of IDB interventions in the strategic sectors identified in the country strategy, as well as their contribution to the strategic objectives. OVE also analyzes the two distinctive characteristics of the 2014-2018 period. The first was the support provided for policy reforms through the use PBLs and PBPs. Given the lack of budgetary additionality of IDB loans, the portfolio emphasized instruments that had lower transaction costs and helped to show results in the short term. The second was the IDB's success during the evaluation period in using technical cooperation and FFS instruments to position itself in terms of knowledge generation. The following section analyzes the factors underpinning the success of both strategies.

A. Evaluation of support for policy reforms (PBLs/PBPs)

Figure 3.1
Analysis of the depth of PBL/PBP policy conditions

Source: OVE analysis based on the policy matrices for the loans.

NOTE: *Tranch/Undisbursed loan. The conditions are based on triggers.



3.2 The IDB supported highly relevant reforms for the country under its PBLs/PBPs, although in evaluation terms it is difficult to attribute the results of these reforms to Bank support. The IDB provided support for reform processes, but that reform decisions were not in any case attributable to the Bank's program. To assess its contribution, OVE conducted an in-depth analysis of all the policy conditions included in the five PBPs/PBLs approved since 2014. OVE found that most were of medium or high depth (Figure 3.1)⁴⁸. Most of the supported programs were back-loaded, i.e. the deepest policy conditions were

48 The "depth analysis" seeks to establish how critical a reform is. High: if the measure is structural and sufficient to generate long-term changes in the institutional and policy context. Medium: if the measure has immediate (but not lasting) effects and these effects are significant. Low: if the measure, on its own, cannot generate any significant change but can serve as a preliminary step in the process.

included in the later tranches/projects in programmatic series. This suggests that in most cases, the IDB provided support for reform processes from their inception. One exception was the energy program, under which the deepest policy conditions were proposed and fulfilled in the first tranche, consistent with the reform process that had commenced under previous administrations. In this respect, it should be noted that in the education, labor market, and competitiveness sectors, the last tranches with deeper conditions have not yet been approved, meaning that outcomes will depend on the new government's political will to work in the established direction.

B. Evaluation of the knowledge generation strategy

3.3 The IDB provided support to Chile through knowledge products financed by technical cooperation funds and through fee-for-service (FFS) arrangements that were highly valued by counterparts in the country. As mentioned previously, two thirds of technical cooperation operations included knowledge products that financed studies, impact evaluations, platforms for managing and exchanging knowledge, and compilations of lessons learned and international experiences. Moreover, more than half of these technical cooperation operations supported knowledge products that were public in nature, with the potential to benefit the entire region. Examples include a study on transparency and efficiency in the use of education funds; a study on governance in science, technology, and innovation, which enriched discussions surrounding the law creating the Ministry; publication of a book with lessons learned regarding reform processes in the area of transparency and integrity; and management models based on the methodology of the Emerging and Sustainable Cities Initiative for metropolitan areas. The technical cooperation operations also supported knowledge generation in areas where the IDB had no loan portfolio, including pension studies financed under the umbrella of Red PLAC, which positioned Chile with regard to issues such as promoting voluntary saving, and studies relating to the Gender Parity Initiative, which supported longitudinal surveys on gender policies. At the same time, Chile has been the leading user of FFS arrangements with the Bank and is the only country that has prepared a framework agreement simplifying the contracting process for these services.⁴⁹ This agreement clarifies two aspects of great importance: that property rights over the studies produced under an FFS contract belong to

⁴⁹ In August 2016, the Ministry of Finance and the IDB signed a framework agreement (Decree 1039) valid through 2018 that allows Chile to access specialized technical assistance provided by Bank staff.

the country⁵⁰ and that Bank staff may hire external consultants on an exceptional basis. The main advantages for Chile were access to external experts and an international perspective.

- 3.4 FFS contracts with the IDB have been requested by different line ministries and government agencies, and they are financing high-quality technical studies in relevant areas as an input into decision-making. For instance, the FFS contract to prepare a program on regulations affected by new technological advances and sharing economies (CH-R1004) has already produced a study profiling Uber users that will be presented to the Congressional Transportation Committee, thus serving as an input into the debate on the regulation of new actors in the sharing economy. Studies for the design of the school financing system (CH-R1002), with regional and international comparisons, have generated technical, up-to-date information in the context of the education reforms, providing empirical evidence that had not previously existed in such detail. Activities to publicize these studies have created opportunities for interaction between the government and academia (Annex, Table 11).
- 3.5 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. According to the officials interviewed in Chile, and consistent with the findings of the recent FFS review by the Office of Strategic Planning and Development Effectiveness (SPD), the IDB, World Bank, and OECD offer a "brand" that gives credibility to studies and sends a signal that the country is seeking high-quality technical advice. The IDB's additional advantage is that its studies are less standardized and are tailored to provide a rigorous response to the client's concerns. Although Chile's civil service has trained staff who could respond to many of the concerns that trigger the demand for FFS arrangements, time limitations and availability of financial resources, together with the IDB's independent technical perspective, knowledge of international best practices, and low transaction costs, mean that there are typically compelling reasons to hire the Bank. Nonetheless, a pending issue is the mechanism for setting the price of the service to ensure that its sustainability.⁵¹

50 Although this aspect is important, OVE feels that it could generate disincentives to the financing of studies considered public goods, given the restrictions that the IDB would face in publishing them. An alternative would be cost-sharing in the case of studies on public goods, where the property rights would be shared.

51 Guidelines for the instrument (document GN-2706-1) state that the Bank will apply a surcharge in addition to the cost of preparing the studies. However, according to OVE's interviews and information contained in the approval documents for FFS

3.6 The World Bank has a specific knowledge generation strategy for clients such as Chile who want technical assistance in knowledge-intensive areas. In its Country Partnership Strategy (2011-2016), the World Bank focused its knowledge generation strategy through the Joint Studies Program (JSP)⁵² and its reimbursable advisory services (RAS).⁵³ Under the JSP, the World Bank plans the production of studies and knowledge products on an annual basis in partnership with the government, through the Budget Directorate. Evaluations of this knowledge strategy highlight the fact that it has provided a framework for coordination between the World Bank and the government in prioritizing knowledge and advisory services, and that it has improved access to available funds for studies while reducing transaction costs. Annual programming helps to respond to the government's emerging priorities in a timely manner. Nonetheless, the World Bank has also faced challenges, such as its lack of a deep understanding of the local context and its lack of local presence in Chile.⁵⁴

C. IDB Group program results by strategic pillar of the country strategy

3.7 Progress was achieved with respect to most of the results proposed under the country strategy. Nonetheless, given the size of the IDB's program in Chile, it is not always possible to attribute these results to the Bank. The country strategy results matrix includes 16 strategic objectives, each of which includes expected outcomes expressed in 23 indicators with baselines and means of verification. OVE updated the data for most of the indicators included in the matrix⁵⁵ and verified that over 80% of those for which information was available evolved in manner consistent with expected country strategy outcomes

arrangements in Chile, pricing was not standardized. Among the challenges in setting prices is how to impute IDB staff time. A study of the World Bank's advisory services yielded similar findings.

52 The JSP is cofinanced by the government and the World Bank, and the amount is negotiated annually. (The amount proposed from 2011 to 2016 was US\$1.2 million per year.) Among the general principles are a focus on institutional development issues and medium-term reforms and a concentration in areas in which the World Bank has a comparative advantage in terms of knowledge.

53 These reimbursable advisory services (RAS) are aimed at generating additional studies that respond to the line ministries' specific short-term priorities ("just-in-time" products).

54 Country Partnership Strategy for the period FY11-FY16; Country Partnership Strategy Completion Report, FY07-FY10; Knowledge-Based Country Programs. An Evaluation of the World Bank Group Experience, 2013; and interviews.

55 There were only two indicators for which information was unavailable. CASEN based indicators were updated using the last survey, from 2015. The data from the 2017 survey have not been weighted.

(Annex, Table 12).⁵⁶ Of particular note were outcomes in terms of increased power generation capacity based on renewable energies, improvements in the government's effectiveness ranking, and the expansion in pre-school education coverage. Given the size of the IDB program in Chile, it is impossible to attribute progress in country strategy indicators to the IDB. However, it is feasible to measure its contribution. This section assesses the results of the program and its contribution to the strategic objectives in the country strategy.

1. Productive development and competitiveness pillar

a. Competitiveness and innovation

3.8 The IDB's work in the area of competitiveness and innovation grew substantially from 2014 to 2018, providing support for productive development policies. The IDB approved four SG loans for a total amount of US\$222 million, equivalent to 20% of the portfolio. Five technical cooperation operations and one FFS contract complete the portfolio. The portfolio includes a Competitiveness and Productive Diversification Support PBP (CH-L1134) that promotes consolidation of the FIE, monitoring and evaluation of productive development policies, and the development of public private interventions in six priority fields. The legacy portfolio includes an external trade loan (CH- L1061). The IDB consolidated its position over the evaluation period as the country's main partner in the area of productive development and competitiveness. The portfolio also supported highly specific or niche areas within productive development policies, such as financing for micro, small, and medium-sized enterprises (MSMEs) through nonbank financial institutions (NBFIs) and productive development in indigenous communities.

3.9 The Bank assisted Chile in working toward the objective of institutionalizing its National Innovation System. Through technical cooperation resources and intense support from its technical team, the IDB assisted with the launch of the FIE, one of the main measures under the Productivity, Innovation, and Growth Agenda.⁵⁷ The Bank's work with the FIE continued with the PBP CH-L1134, the policy conditions for which are aimed at ensuring continuity with the new government. The Bank's technical support served as an input for designing the

56 Of the 21 proposed indicators, 16 saw progress in the direction stipulated in the country strategy. Progress fell short of expectations in the case of two indicators for the regional development pillar (consistent with limited advances in the area of decentralization) and one indicator in the productivity and competitiveness sector (which saw only partial progress, as the law institutionalizing the National Council on Innovation for Development has not yet been approved by Congress). Lastly, OVE was unable to update two indicators: reduced energy consumption and perceptions of the efficiency of public service delivery.

57 The FIE has approved 34 initiatives since 2015, with a budget of approximately US\$170 million.

architecture of a new Ministry of Science, Technology, and Innovation. IDB interventions were aimed at improving the FIE's portfolio management with respect to productive innovation projects. The IDB used technical cooperation funds to support a monitoring strategy that was instrumental in improving the likelihood of success in innovation projects.⁵⁸ The IDB's work with CORFO and the National Council on Innovation for Development through the Innovation Lab (I-Lab) supported the creation of social innovation prototypes.⁵⁹ The success of this project led to the creation in 2017 of Social Innovation Prototypes—a standard CORFO instrument that replicates the I Lab methodology in all regions of the country.

3.10 In terms of the objective of improving SME management and productivity, the IDB found a niche working on the expansion of development programs for indigenous groups, although it is still too early to see results. The indigenous development program (CH-L1105) provides technical assistance and support to improve beneficiaries' management capacities. CORFO reports indicate that as of May 2018, with almost one quarter of the loan disbursed, the portfolio contained 55 projects (the target is 36 by 2020) with an average value of US\$352,000, with most projects in Araucanía. In 2017, the Indigenous Coverage Program (COBIN) was created; this is an innovative contingent subsidy (guarantee) instrument that allows CORFO to compensate 90% of any losses suffered by financial intermediaries or the Agricultural Development Institute (INDAP) stemming from loans to indigenous communities or associations. As of May 2018, the eligibility protocol⁶⁰ and CORFO guarantees had been approved for six projects (the target is 24 by 2020). However, beneficiary companies face problems in gaining access to credit through private financial intermediaries.⁶¹ The Bank also supported the creation of business development centers that provide technical assistance to SMEs to improve their management and productivity.

58 The expected IRR for the active projects financed by the FIE is 19.7%. FIE, *Memoria 2016-2017*.

59 As part of the social innovation pilot project in Aysén, a platform was created through which different stakeholders (public officials and citizens) express and prioritize problems in the region that could potentially be addressed through pilot projects. See: <http://www.bidinnovacion.org/es/iniciativa/6/ayesen>.

60 The technical cooperation operation CH-T1169 helped to create the sociocultural eligibility protocol, aimed at verifying the free and informed consent of the indigenous communities, economic governance arrangements, the participatory redistribution of benefits, economic feasibility, and long-term sustainability of the project.

61 Of the six projects that have so far achieved compliance with the eligibility protocol and secured a CORFO guarantee, only three have obtained financing (all with public funds -Agricultural Development Institute-).

- 3.11 The IDB Group provided support through both its public and private sector windows for programs to improve access to financing for MSMEs, with satisfactory results, in different market segments. The sovereign guaranteed loan supporting access to financing (CH-L1098) disbursed 25% of resources, benefiting eight savings and loan cooperatives and NBFIs in 14 of the country's regions, financing more than 7,900 MSMEs in 2018 (Annex, Table 13).⁶² These figures mean that the loan has surpassed the target of 2,000 MSMEs financed by 2020, but the average value of the loans was substantially lower than planned. Disbursements have been low under the most innovative factoring and financial leasing components.⁶³ In the case of the private sector (NSG), operations with factoring and financial leasing were channeled through four relatively sophisticated NBFIs with access to financing.⁶⁴ These operations financed around 3,000 medium sized enterprises, with additionality in terms of tenors⁶⁵ (Annex, Table 14).
- 3.12 Lastly, Chile implemented the Integrated External Trade System (SICEX) with IDB support, but the platform is still underused. From 2011 to 2016, the Bank supported the implementation and launch of SICEX. However, usage in 2016 was 17% in the case of exports and nil in the case of imports, compared with targets of 90% and 70%, respectively, for 2015. Possible causes are the lack of integration of certain foreign trade services, the absence of a roadmap to require use of the instrument, and a low rate of participation by private operators in the first stage of the project. Consequently, the project may have no more than a marginal impact on the objectives of reducing the time and cost of foreign trade operations.⁶⁶ Nonetheless, new functionalities have continued to be added to the system, and the OECD indicates that use of the platform is on the rise.

62 The main beneficiary of the MSME line of credit at CORFO was *Fondo Esperanza*, Chile's largest social development institution, which supports entrepreneurs in vulnerable sectors. Another seven financial intermediaries also used the credit line, together benefiting 7,650 microenterprises, 173 small enterprises, and 43 medium-sized enterprises in 2018.

63 With respect to factoring, a single bidding process was held, resulting in the selection of three firms (out of a total of 16 candidates) who in turn benefited 65 clients (mostly small enterprises).

64 Three of IDB Invest's four NBFIs clients have issued domestic or international corporate bonds.

65 The funds disbursed helped the NBFIs to reduce the mismatch in maturities between their assets and liabilities and increase their average financing periods. The average maturity of IDB Invest financial leasing operations was 54 months, an improvement over the average maturity, which varies from 36 months to 60 months. The factoring operations also provided longer average maturities (12 months versus 3 months).

66 The results matrix expected a 50% reduction in both these dimensions, and this was achieved for SICEX users in 2016. Nonetheless, the impact of this is limited given the low number of users.

b. Energy

- 3.13 During the evaluation period, the IDB Group was an important partner for the country in implementing sector reforms that underpinned progress towards the objectives set out in the country strategy. In the public sector, a program of reforms (PBL) and technical cooperation operations supported different measures within the reform process, including the consultation process for the 2050 energy policy and actions to promote renewable energies, energy efficiency, and energy integration. Support was also provided to institutionalize the new Electricity Transmission Law. Although the PBP policy conditions were of medium depth, they were relevant in the context of the government's program. According to the government counterparts interviewed, the technical cooperation resources were of particular value, alleviating certain inflexibilities in the government's budget. The government also acknowledged and valued the Bank's role in promoting energy integration initiatives under the umbrella of SINEA.
- 3.14 The private sector portfolio in Chile was aligned with the country strategy objective of support the generation of nonconventional renewable energies. The projects approved in the context of implementation of the Clean Technology Fund (CTF) responded to an explicit intervention strategy and promoted coordination between the IDB Group's public and private sector windows, whereas for the rest of the NSG operations, no strategic positioning was observed with respect to market development in Chile's electricity sector. CTF resources were invested according to an investment plan prepared by the Chilean government.⁶⁷ These funds, which were applied in five operations, were used to mobilize resources and give greater flexibility to the structure of some nonconventional renewable energy operations (Annex, Box 5). Support for the geothermal project (Cerro Pabellón), meanwhile, furthered the government's dual objective of demonstrating the viability of a large-scale geothermal project and promoting cooperation between the State-owned enterprise (ENAP) and a major international partner such as ENEL. The rest of the NSG portfolio did not appear to follow an explicit intervention strategy. The country strategy did not include strategic objectives in its results matrix for the private sector windows in the electricity sector. This, together with the

67 Chile's investment plan for the CTF (endorsed in 2012 and revised in 2013) called for US\$200 million for NSG operations in the energy sector (specifically concentrated in solar power, geothermal, and energy efficiency projects). As of May 2018, the IDB Group had approved projects with CTF resources totaling US\$58.1 million, with US\$125.7 million pending approval. The CTF funds went to projects that were not attractive to private banks owing to their high level of risk or to cost barriers related to technology and knowledge.

heterogeneity of the projects,⁶⁸ hinders evaluation. The projects showed additionality in terms of tenors (average of 15 years) and are above the average for other countries. However, the renewable generation portfolio was highly exposed to spot market price risk.⁶⁹ These risks translated into a portfolio with several projects in financial difficulty.⁷⁰

c. Public management

- 3.15 The IDB has a long history of supporting public management in Chile, and it has contributed to progress towards the strategic objective of preparing the State for citizen demands. The IDB had been working towards modernizing public institutions through specific operations aimed at supporting judicial reform and strengthening institutions such as the State Defense Council, with satisfactory results but limited impact (Annex, Box 6). During the evaluation period, the strategic line of action relating to public management focused on initiatives to improve citizen services and, in response to a specific request from the government, to support reforms in the area of transparency and integrity.
- 3.16 As part of this effort, in 2014 the Bank approved the Public Management and Citizen Services Improvement Program, with satisfactory results. The program sought to improve the effectiveness of lead agencies and entities that provide services to citizens. The program has benefited support in the form of technical cooperation (US\$695,000)⁷¹ and the participation of IDB specialists. In the counterpart's opinion, the technical cooperation operations were relevant, and the technical support of IDB specialists in selecting and implementing projects was highly valued. The pace of progress under the project has been determined by the fiscal space allocated to it. The subprojects that are in execution (seven out of a target of 12) are being carried out with key entities in the government, and mostly show progress levels of over 60%. Key among these are digitization of procedures in the Social Security Superintendency, the

68 The NSG portfolio includes projects that support different technologies (solar, wind, cogeneration), business models (small-scale distributed generation, large generators), sponsor types (large multinational electricity companies and small generators), and market risk profiles (with power purchase agreements -PPAs- at stabilized or spot prices).

69 Especially in projects aimed at demonstrating the technical and financial viability of projects without power purchase agreements (PPAs). Three solar generation projects (CH-L1076, CH-1079, and CH-L1092) were fully exposed. This contrasts with the banking sector's preference for avoiding the financing of projects with a PPA/spot market proportion above 60/40.

70 The decline in marginal costs over the period has been associated with a series of factors, including the greater availability of water for generation, the rapid penetration of renewables, the falling price of fossil fuels, and lower-than-expected growth in demand. Some of these factors were considered in defining the project stress test scenarios, but none foresaw these factors conjoined with the success of the energy reform.

71 Improved Management and Transparency in Citizen Services (CH-T1155), Strengthening of the Implementation Projects to Improve Citizen Services Management (CH-T1159), and Strengthening Institutional Capacity (CH-T1191).

social control and monitoring of public procurement through *ChileCompra*, the *ChileAtiende* web portal for information and administrative procedures, and an increase in statistical products prepared by the National Statistical Institute (Annex, Table 15). In terms of institutionalization, the methodology for identifying entities and services has been gradually refined, with this capacity installed at the Ministry of Finance.

3.17 At the same time, the IDB supported the Integrity and Transparency Agenda, demonstrating adaptability and flexibility in response to country requests. Although these issues were not explicitly identified in the country strategy, the Bank provided support for the process. This was initially on an informal basis, with its experts contributing to the Presidential Advisory Council against Conflicts of Interest, Influence-Peddling, and Corruption. It was subsequently formalized, however, with approval of a PBP series (CH-L1110 and CH-L1111) for a total of US\$230 million, which was fully disbursed. The Bank also supported the Citizens' Observatory, which became the Integrity Observatory. The policy matrix was aimed at strengthening the regulatory and institutional framework, ensuring integrity and transparency, and fostering similar behavior by citizens. More than a third of the Advisory Council's proposals were addressed by the deepest PBP policy conditions. These policies achieved high levels of compliance.⁷²

2. Human capital development pillar

a. Education

3.18 The education sector received the most financial and technical support during the country strategy period. The IDB is one of the partners with the strongest presence in the sector.⁷³ The portfolio in education includes a PBL to strengthen technical and vocational education and two investment loans—one to expand early childhood education and another to strengthen education management. The three operations total US\$215 million. A total of US\$800,000 in technical cooperation and an FFS was also approved. The IDB also supported Chile using regional technical cooperation operations, including the Education Innovation and Research Laboratory for Latin America and the Caribbean

72 Using the Anticorruption Observatory's database, OVE analyzed the degree of alignment between the deepest reforms and the Anticorruption Council's proposals. The largest amount of programmatic support was channeled into the area of "political financing to strengthen democracy," in which 75% of the Council's proposals were addressed by high-depth reforms in the PBP (Annex, Table 16).

73 The World Bank has three operations in higher education: the most recent one (2017), for US\$50 million, for strengthening public universities, and two loans for higher education, for US\$25 million (2005) and US\$40 million (2012).

(SUMMA).⁷⁴ Chile participated in several intraregional technical cooperation agreements (CT-INTRA) to support knowledge exchange.⁷⁵ The IDB is perceived as an expert technical partner in the sector and an intermediary in creating spaces for dialogue and consensus-building.

3.19 In terms of outcomes, the IDB's greatest contribution was to the objective of improving early childhood education coverage, through its support for a presidential program. The objective of the Early Childhood Education Expansion and Improvement Program (CH-L1082, 2014, US\$75 million, 94% disbursed) was to support the implementation of a presidential program to expand nursery and preschool coverage, incorporating high quality standards in infrastructure, equipment, and the service model. Execution of the loan was satisfactory and the "special," IDB-approved bidding process for construction activities helped resolve bottlenecks. Progress was also made in implementing 114 works projects⁷⁶ covering 100% of the adjusted target and accounting for 24% of the presidential target.⁷⁷ Of the 114 works projects, more than 80% are in operation and 13% have been completed. In terms of the quality and strengthening of teaching practices, advanced training courses were given to more than 4,000 teachers and technical specialists, thus meeting the annual target. The subcomponent to support improvements to the early childhood education improvement plan and the georeferenced system was canceled. Despite this, the National Kindergartens Board (JUNJI) used its own resources to move forward with implementation of the georeferencing system for educational facilities, as well as information-gathering on early childhood education centers in the country as part of certification efforts. The IDB's work fell within the framework of JUNJI's general activities, ensuring their sustainability. However, issues surrounding maintenance of the works became apparent during a visit to the centers.⁷⁸

74 Chile is the host country for the headquarters of the Education Innovation and Research Laboratory (RG T2692), in which Uruguay, Peru, Ecuador, Colombia, Brazil, and Mexico all participate.

75 Using the CT-INTRA tool, Chile participated alongside Colombia, the Dominican Republic, and Peru in a knowledge exchange covering several education topics.

76 These include 190 nurseries for children aged between 0 and 24 months and 180 mid-level facilities for those aged 25 to 48 months, with a total approximate capacity of 8,816 places across both levels.

77 Presidential target: the unit of measurement and the target were changed, from 124,000 places to 70,000. This translates into 470 new projects. To date, JUNJI has completed 464 works projects, 114 of them with IDB resources. Project targets: the original target of 150 works projects was modified to 114. Source: JUNJI, 2017 Project Monitoring Report, and Part III of the loan contract.

78 The new works come with a one-year guarantee for the providers but will require future maintenance. JUNJI's maintenance plans focus on existing units rather than new works.

3.20 In relation to the objective of improving the quality of education, the IDB supported the government with a PBL, not yet completed, to improve technical and vocational education. The program (CH L1095, 2015, US\$90 million, 67% disbursed) was divided into three tranches, two of which have already been executed, and the operation is being implemented by MINEDUC, through its Technical and Vocational Education Subsecretariat. The program seeks to improve the relevance, quality, and effectiveness of technical and vocational education. Analysis of the depth of the policy matrix shows that the conditions under the first tranches were of medium-low depth (57%), but that conditions under the last tranche (for which disbursement is still pending) are deeper. The most notable advances include the approval of the National Technical and Vocational Education Policy and development of the Qualifications Framework. The IDB approved an investment loan to strengthen education management (CH-L1081, US\$50 million), but no disbursements have been made. The law governing the new public education system—the expected framework for most actions proposed under the operation—was approved in November 2017. Nonetheless, the technical support provided by the IDB as part of the program was important for the process of approving the law.

b. Health

3.21 Despite limited financial support for the sector, the IDB sought to position itself in specific niches by providing high-value technical support. Nonetheless, these actions are insufficient to attain the strategic objectives set out in the country strategy. The technical areas have included IDB support for the National Health Investment Plan. Drawing on technical cooperation resources (CH-T1145, 2014), the IDB helped to create the foundations for a model to implement the National Health Investment Plan, although the investment unit was never created. In 2017, another technical cooperation operation sought to strengthen the investment prioritization methodology and improve the sector institutional framework. Diagnostic assessments of the sector show that Chile is deficient in terms of medical devices, so the IDB supported the country in this area through a technical cooperation operation (CH-T1109, 2017) drawing on national and international experts to improve the registration and regulation process for these devices. Lastly, the IDB's support for Easter Island in the area of vector-transmitted disease prevention is of note. The IDB provided support through a technical cooperation operation (CH-T1171, 2016) for strengthening of the entomology and molecular biology laboratory in Hanga Roa Hospital. These actions helped enhance response capacity and reduce the likelihood of disease outbreaks on the island.

c. Labor markets

3.22 The IDB has a long tradition of working with the Government of Chile on labor market issues. In 2012, the IDB approved an investment loan to support the MTPS in improving the coverage and effectiveness of training activities conducted by the National Training and Employment Service (SENCE) (CH-L1064, US\$7.5 million). The loan had high knowledge generation content and sought to simultaneously influence the Ministry's sector oversight role and SENCE's execution capacity. Several technical cooperation operations accompanied the loan efforts.⁷⁹ The Bank conducted several studies analyzing success factors for Chile's labor intermediation policies.⁸⁰ Based on these studies and the lessons learned under loan CH-L1064, the Bank designed a PBL, the Program to Strengthen the Labor Intermediation System in Chile (CH-L1135, US\$100 million), the first tranche of which was approved in 2017. The PBL seeks to organize fragmented initiatives and create a unified vision for the delivery of labor intermediation services. The IDB also provided support for the pensions system through technical cooperation funding and active technical dialogue.

3.23 The IDB program was aligned with the country strategy objective of improving labor participation and employability among the most vulnerable groups, but the operations did not reflect the specific emphasis placed on gender in the country strategy. The country strategy's results matrix included two indicators relating exclusively to issues of gender. The program did not reflect this emphasis, but structural issues of importance for the country were addressed. Although several operations approved over the period had a gender perspective,⁸¹ the IDB's emphasis was geared to improving labor training and intermediation systems generally, regardless of the type of beneficiary, attacking weaknesses in the system and issues of labor productivity.

3.24 With respect to the objective of improving employability and the labor intermediation system, the IDB helped to strengthen SENCE's technical, management, and administrative

79 CH-T1120 supports the MTPS in designing and evaluating labor intermediation policies; CH-T1115 is a pilot project to support skills training for vulnerable youth; and CH-T1112 for the National Women's Service (SERNAM) promotes economic participation among women and their placement in the labor market.

80 These studies were financed under four technical cooperation operations that were approved (CH-T1152, CH-T1179, CH-T1189, and CH-T1175).

81 The IDB supported the Gender Parity Initiative (IPG) (CH-T1173) in coordination with the World Economic Forum and the National Productivity Commission (CNP). Comunidad Mujer is in charge of the IPG's Executive Secretariat and has representatives from the public and private sectors and civil society. As part of the initiative, measures have been proposed to help close the gender gap in the labor market. Currently, 110 companies belong to the IPG, with the commitment to participate in studies and implement the recommended measures. Through CH-T1164, the IDB aims to improve social and labor market reinsertion for female prisoners.

capabilities, with partial results. The main achievements under the loan (CH- L1064, 2012) include:⁸² (a) creation of the Strategic Development Unit, which has led to improvements in administration, bidding processes, and the control of suppliers, as well as the completion of studies of different training programs; (b) improvements in information systems, although on a lesser scale than originally planned; and (c) the quasi-experimental evaluation of the Work Training Program and the labor intermediation pilot project in the Valparaíso and Biobío regions. However, there was no progress in strengthening the MTPS's sector oversight capabilities. The IDB is providing support for strengthening of the labor intermediation system under the PBL, which has not yet disbursed. OVE confirmed that most of the first tranche conditions had been fulfilled and general guidelines were available for designing the National Labor Intermediation Policy. The new government conveyed its willingness for the operation to continue.

3.25 In the area of pensions, IDB studies generated diagnostic assessments that enrich the policy dialogue. One technical cooperation operation (CH-T1175, 2016) conducted a study of bidding processes as a mechanism for assigning administration services for individual capitalization accounts, and the the Pensions Superintendency has used this as an input for the debate on the topic. Studies were financed under another technical cooperation operation (CH-T1156, 2014) that will be used as inputs for the analysis of potential reforms, such as the impact of an increase in social security contribution rates on the labor market, investment in alternative assets for pension funds, and risk-based supervision processes. Some recommendations that came out of these studies are already being implemented.⁸³ Through the Red PLAC, pilot projects were designed to assess innovative mechanisms to promote voluntary savings, particularly for low-income workers.

3. Regional equity and development pillar

3.26 In regional development, the Bank continued to support the Department of Regional Development (SUBDERE) and the decentralization process through heritage preservation programs, with some positive results. However, there was no progress with respect to country strategy objectives. Following the 2006 approval of a conditional credit line for investment projects (CCLIP) that supported regional development and the decentralization process, the Bank approved five operations for US\$380 million

82 Project completion report for the program to support SENCE's effectiveness, January 2018.

83 Investment in alternative assets: rules 205-212 and Resolution 88, which modifies the Investment Regime; and the New Risk-Based Supervision Model: No. 216 and Resolution 102.

(CH-L1018, subnational management; CH-L1025, rural sanitation; CH-L1026, solid waste management; CH-L1032, heritage preservation, and CH-L1033, bicentennial cities).⁸⁴ Of these, only the heritage assets program was executed in a satisfactory manner, and it is now a regular SUBDERE program with a specific budget line. This project introduced the concept of heritage assets in public policies and succeeded in building a model for working with subnational governments. A total of 15 regional portfolios with 259 initiatives were financed for US\$160 million, achieving the program target. The project also developed a social evaluation methodology for projects to preserve heritage assets, and it developed capabilities in the regional governments. Following this line of activity, in 2015 the IDB approved the Revitalization of Neighborhoods and Heritage Infrastructure Program (CH-L1084) for US\$90 million. The project seeks to build management models in five municipios to allow neighborhood improvements, preservation of heritage buildings, and increased economic and cultural activity, while encouraging residents' participation. The project was approved in October 2015, but eligibility was only achieved in the second half of 2016 and only 4% of resources have so far been disbursed; as a result, no results have yet been reported. In parallel, the IDB assisted SUBDERE's Regional Development Division in promoting the subnational agenda, with preparation of a report on metropolitan areas (FFS) and implementation of the Emerging and Sustainable Cities Initiative.

4. Area for dialogue: regional integration

3.27 The IDB's regional integration portfolio was focused on priority projects within the central Mercosur Chile axis, which is the main integration corridor. These large scale projects have not yet reached eligibility. The Bank is supporting a US\$1.5 billion conditional credit line for investment projects (CCLIP) to finance construction of the Agua Negra Tunnel, with two investment projects: RG-L1074 for US\$40 million (US\$20 million for Argentina and US\$20 million for Chile), approved in 2017, and RG L1116 for US\$280 million (US\$150 million for Chile and US\$130 million for Argentina), approved in 2018. This is a high-risk project due to the size and complexity of the works, the lengthy execution period, and the challenges of binational coordination. The IDB's support for strengthening the execution capacities of the binational entity (EBITAN) will be key in mitigating some of these risks. Box 7 of the Annex analyzes the role of the IDB in these types of projects.

84 The operations were designed as performance-driven loans (PDLs) and suffered from significant design issues that lead to unrealistic targets, hindering timely disbursements. Three operations (CH-L1025, CH-L1026, CH-L1033) ended in total cancellation, while two were partially cancelled: CH-L1018 for US\$26.6 million and CH-L1032 for US\$11.3 million.



04

Conclusions and Recommendations

- 4.1 Chile has a solid institutional framework, one of the highest per capita incomes in the region, and one of the lowest levels of country risk. Despite this, it faces challenges in terms of low productivity growth, high levels of inequality, and low institutional capacity at the subnational level. Chile's economy slowed between 2014 and 2018, and although external conditions showed signs of improving in 2017 and growth rates are forecast to recover in 2018, the relatively weak productivity performance and high levels of inequality are structural challenges that hamper convergence with development levels in the OECD countries.
- 4.2 During the evaluation period, the Chilean government deepened several reform processes to address the country's long-term challenges. These included tax reform, aimed at creating a more progressive system, and education reform, to boost access for all social strata. In the electricity sector, a program was launched to reduce costs and make rates more equitable. In the labor market, the government promoted policies to expand workers' rights. With respect to public management, the government supported reform in the areas of transparency and integrity, and towards the end of the period it was successful in moving forward with reforms promoting regional development and decentralization.
- 4.3 Chile's borrowing policy emphasized bond issues on the domestic and international markets at competitive rates. In this context, the interest rates offered by the IDB were less competitive. Chile moved away from a strategy of short-term bank borrowing towards longer-term financing through bonds. Within the debt management strategy, the space dedicated to multilateral borrowing has been relatively small. Interest rates charged by the IDB to the Government of Chile have been uncompetitive compared with those available to the country on international markets. Although IDB financing of Chile's budget is marginal, the IDB accounted for more than half of the total space for multilateral borrowing in Chile.
- 4.4 Despite the IDB's lack of financial competitiveness in Chile, the IDB's program more than doubled the financing framework laid out in the country strategy while demonstrating flexibility and an ability to adapt to the government's priorities with a value proposal. Although the Bank had planned sovereign guaranteed (SG) approvals totaling US\$500 million, it approved US\$1.175 billion in SG loans from 2014 to 2017. The higher levels of approvals were in response to increased borrowing demands by the government. The IDB also succeeded in formulating a value proposal that included substantial technical support from its personnel, facilitating innovative and niche projects and

assuming a role as a neutral mediator in supporting policies. Building on the reform process pursued by the Government of Chile, the IDB opted to alter the composition of its instruments during the evaluation period, making more intensive use of its reform-based instruments (PBL/PBP). These instruments entail lower transaction costs and faster disbursements. Of particular note was the IDB's support for reforms in the education and competitiveness sectors, due to the Bank's significant technical contributions, its support for transparency and integrity reforms, due to its role as honest broker in a very politically sensitive process, and the visibility that it brought to reform in the electricity sector.

- 4.5 Investment loans were characterized by high operating costs, and execution delays have had a negative impact on the IDB's financial competitiveness. The disbursement profile of active investment projects in the IDB's portfolio in Chile is slightly below the average for comparable countries and for the IDB as a whole. Despite the use of country systems, investment operations approved in Chile were relatively more costly for the IDB than in comparable countries. These costs are explained partly by the relatively small size of closed operations and partly by the high level profile of IDB professionals in Chile. There is also a marked difference in average costs between investment projects and PBLs. Furthermore, estimates of the internal rate of return (IRR) for the IDB as an investor show that the spread between the ex ante and ex post IRRs has averaged an additional 10 basis points. This is explained, in part, by execution delays, which entail larger commitment fees. One of the investment projects that was most successfully executed sought to expand and improve early childhood education; this financed part of the target of the presidential program to expand nursery and preschool coverage, incorporating high quality standards in infrastructure, equipment, and the service model.
- 4.6 Non-sovereign guaranteed (NSG) loan approvals totaled US\$588.7 million between 2014 and 2017. Although the private sector operations were relevant and showed additionality, the country strategy did not define the strategic positioning of the private sector windows. The approved amounts corresponded to 20 operations by the different windows: the former Inter-American Investment Corporation (US\$65.8 million); the former Structured and Corporate Financing (SCF) Department (US\$171.9 million); and IDB Invest (US\$351 million). Operations were focused on the productive development pillar, supporting mainly the energy sector and access to financing. In energy, the projects approved in the context of the Clean Technology Fund (CTF) responded to an explicit intervention strategy and promoted coordination between the IDB Group's public

and private sector windows, whereas for the rest of the NSG operations, no strategic positioning was observed for market development in Chile's electricity sector. The projects showed additionality in terms of tenors. However, the portfolio had a high degree of exposure to market price risk.

4.7 The IDB used technical cooperation resources to offset high financing costs and support the country with knowledge products. The IDB opted to generate value added through high technical content in the policy dialogue. This meant hiring high-level experts to work at the Country Office to respond to the demand for knowledge. As part of its financial offerings, the IDB included a technical cooperation package in strategic sectors that was used to leverage loan resources, open up new areas of intervention, and expand the knowledge base in response to government demand. However, the IDB would benefit from planning of a more strategic nature in relation to its nonreimbursable resources, with a view to including these as part of a knowledge strategy. Although this business model was effective in meeting Chile's needs, it has implications for the IDB in terms of increased costs.

4.8 In line with the findings of this evaluation, and as part of the preparation of a new strategy, OVE recommends that Management should consider the following:

- 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 could be explored of combining these options with the use of social impact bonds.

- 2. 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.** 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 that includes technical cooperation funds, FFS contracts, and the identification of other sources of funding; and a clear strategy for disseminating knowledge.
- 3. Promote coordination between the 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.

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