



Independent Country Program Review

Chile

2019-2022

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Acronyms and Abbreviations

CDC	Country development challenges
CORFO	<i>Corporación de Fomento de la Producción</i> (Production Promotion Corporation)
CPE	Country Program Evaluation
CS	Country Strategy
CSC	Country Department Southern Cone
FFS	Fee-based Financial Advisory Service
GDP	Gross Domestic Product
ICPR	Independent Country Program Review
ICT	Information and communication technologies
IDB	Inter-American Development Bank
IMF	Inter-American Development Bank
LAC	Latin America and the Caribbean
LBR	Loan based on results
MSMEs	Micro, small and medium-sized enterprises
NBFI	Non-Bank Financial Institutions
NCRE	Non-Conventional Renewable Energy
NSG	Non-Sovereign Guaranteed
OECD	Organization for Economic Cooperation and Development
OVE	Office of Evaluation and Oversight
PBL	Policy-based loan

PBP	Programmatic policy-based loan
PCR	Project Completion Report
PISA	Program for International Student Assessment
ReTS	Evaluation Recommendation Tracking System
SG	Sovereign guaranteed
SIL	Specific Investment Loan
SMEs	Small and medium-sized enterprises
SO	Strategic Objective
STEM	Science, technology, engineering and mathematics
TC	Technical cooperation
TFFP	Trade Finance Facilitation Program

Executive Summary

Country context: short and long-term challenges. Chile is a high-income country but faces challenges to improving its productivity and promoting a more inclusive society. During the Country Strategy (CS) period (2019-2022) the Chilean economy faced a series of major shocks: the social outburst of October 2019 and the COVID-19 pandemic in 2020/21, which led to a sharp contraction of the economy, rising levels of unemployment and increased vulnerability of the lower-income population. These shocks have exacerbated and introduced new short- and long-term development challenges for Chile. Given the effects on the fiscal deficit of the economic contraction and the stimulus measures to address the shocks, a first challenge is to increase the efficiency of public spending and generate new sources of financing to ensure fiscal sustainability. Another challenge is to ensure the recovery of employment in an inclusive manner, reducing informality and integrating population groups that have traditionally been excluded from high-quality jobs. On the other hand, weak productivity performance continues to be one of the most important structural development challenges for Chile, together with lagging infrastructure endowment (physical and technological), restrictions in access to financing, and deficits in human capital. Among the issues associated with climate change, Chile faces important challenges in terms of energy transition and water resource management. Despite the fact that Chile is a reference in the region in terms of governance and institutional quality, the social protests revealed Chileans' lack of confidence in their institutions. Improving equity in access to high-quality social services, especially education and health, is another challenge to guaranteeing equal opportunities and improving citizen satisfaction with the State. Another challenge for social policy is to strengthen social protection against systemic shocks that affect income and employment, due to their impact on poverty. Finally, improving elderly income continues to be a long-term challenge, even more so since the pension system was affected by the response to the pandemic.

Relevance of the IDB Group Strategy in Chile and its evaluability. The CS for the 2019-2022 period was based on a diagnosis that emphasized the recovery of economic activity after a period of downturn, which was the result of a context of reduced investment, growth in expenditures and an increase of the debt. In this context, the 2019-2022 CS focused on two priority areas: increasing investment

and improving productivity, and improving the quality of life for the population. The Strategic Objectives (SOs) in the “productive area” were relevant in light of the country’s structural challenges associated with the stagnation of productivity, limited economic diversification and low levels of investment, giving continuity to several areas of the intervention prioritized in the 2014-2018 CS. The SOs that addressed “quality of life” were also relevant in the face of the country’s structural challenges, which were echoed by the 2019 social unrest, but their approach in the CS was more dispersed. In general, the SOs of the 2019-2022 CS were not only relevant to the country’s needs and structural challenges, but there were also in line with the government’s development strategy: “Building Better Times for Chile” (Construyamos Tiempos Mejores para Chile). The strategic priorities of the 2019-2022 CS were also aligned with the IDB Invest 2017-2019 Business Plan and the IDB Group’s institutional strategy. Overall, the country strategy results matrix provided an adequate vertical logic between SOs and expected outcomes, but it was not always feasible to measure the results with the proposed indicators. Also, while the 13 SOs included in the CS were relevant and addressed important development challenges in the country, the question remains as to how realistic the expectation was that the IDB Group could make a substantial contribution in all the proposed areas. Finally, OVE identified substantial progress in the implementation of the recommendations from the previous Country Program Evaluation (2014-2018).

The operational program. During the 2019-2022 CS period, the Bank approved US\$1.6 billion in sovereign guaranteed (SG) operations, tripling the level of approvals anticipated under the CS financing framework, in a context of competitive funding costs and increased demands for government financing as a response to the social unrest and the pandemic. The program made intensive use of policy-based loans (PBP/PBL), which relied on the work the IDB had been carrying out in the country with technical assistance, allowing it to respond quickly to the government’s increased demand for financing and to support necessary and relevant reforms to the development challenges identified in the country strategy’s two priority areas. Of the total amount approved, 70.6% were policy-based loans (PBL/PBP), 27.5% were investment loans (INV), while the remaining 1.9% were technical cooperation (TC) and investment grants. Approvals of non-sovereign guaranteed (NSG) loans during the same period totaled US\$926.9 million and complemented the SG portfolio in the strategic area of productivity. The program included legacy operations that had an undisbursed balance of US\$930.1 million at the beginning of the period, which were also concentrated in the productivity strategic area.

IDB Group response to the social crisis and the pandemic. Between 2020 and 2021, the IDB Group approved 11 operations for \$1,441.3 million to support the Government’s response to the social unrest

and the COVID-19 pandemic. Almost two-thirds of these resources were PBL focused on responding to economic reactivation and guaranteeing minimum levels of quality of life for vulnerable people. Some investment loans also focused on relieving the productive sector and the labor market, while TCs supported both the public health system's capacity to provide care and its management. IDB Invest's response was also important through its support for the stabilization of electricity tariffs and access to finance for SMEs.

IDB Group program alignment. The productivity area concentrated about 60% of the approved resources and undisbursed balances of the legacy portfolio, with significant participation from IDB Invest. In this strategic area, the program aligned strongly with the SOs and its expected results in the areas of access to finance, connectivity and energy, while alignment was weak in the areas of education, innovation, and competitiveness. In the strategic area of quality of life, the amount was lower and the country strategy SOs were more dispersed. In this area, the IDB Group's program aligned strongly with the SOs and its expected results in the areas of pensions, simplification of procedures, urban environment, air quality and urban mobility; while alignment was weak in the areas of health and climate resilience. Some programs in the areas of labor markets, citizen security, and transparency were not aligned with the country strategy SOs. Finally, it is important to highlight that the program was able to effectively internalize crosscutting issues, mainly related to gender, diversity, and climate change.

Implementation of the IDB Group program. Responding to greater demands for liquidity to face the effects of the social crisis and the pandemic, SG loan disbursements far exceeded the estimate in the CS, while disbursements of NSG loans increased 154% compared to the previous period. The composition of the portfolio enabled the IDB Group to respond with disbursements that were countercyclical and to improve execution performance indicators. Compared to the previous period, loan preparation and execution expenses for both (INV and PBL) SG loans in Chile decreased significantly. Likewise, preparation times for both (INV and PBL) SG loans were reduced, although execution times remained stable and in line with the average for the Southern Cone (CSC) and the rest of the Bank. The improvements in loan preparation and execution are explained, in part, by the programs that were approved and disbursed during the period being in sectors where the IDB had previously been working with the Government through technical assistance and policy dialogue. The main factors that affected the implementation of the IDB Group's program during the CS period were the social unrest and the pandemic. Some investment operations in the legacy portfolio were affected by the lack of prioritization in their budget allocations, leading to their cancellation.

Program's contribution to the SOs and its expected results

Priority Area: Increasing investment and enhancing productivity.

In education, although the IDB program was broad and substantial progress was made at all three educational levels, the CS expected outcomes in terms of improvements in the quality of learning were not met, and those of improvements in Information and Communication Technology (ICT) and Science, Technology, Engineering and Math (STEM) skills were not supported. In innovation, the program contributed to promoting business innovation through the institutionalization of the National Innovation System, but it did not contribute to the expected outcome of adoption of digital technologies. In access to finance and energy, the IDB Group program showed a substantial contribution to the expected outcomes in terms of expanding credit to SMEs and increasing investments in transmission and distribution systems, as well as energy generation through renewable sources. One characteristic of the intervention in these areas was the broad scale of articulation between the interventions of the public and private windows. In terms of competitiveness, the program had a limited contribution to increasing export competitiveness since it did not have operations that focused on improving the country's logistics performance as established in the country strategy's expected outcome. In connectivity, the program's contribution to narrowing connectivity gaps cannot be determined due to the incipient nature of SG operations and limitations in the indicators of NSG operations.

Priority Area: Increasing the quality of life for the population.

In pensions, and despite the fact that replacement rates have been decreasing, the program partially contributed to the objective of increasing pensions in a sustainable manner. The PBL policy measures supported the permanent increase in the basic solidarity pension and supplementary pension contribution and helped to alleviate the impact of current and future pension withdrawals of the most vulnerable population. However, a reform of the pension system that manages to increase pensions in a sustainable way and increase replacement rates is still a pending matter. In the area of health, the IDB contributed to the SO of improving the health of the Chileans and its expected results through TC operations that aimed at improving the quality of health care, mainly through the management of waiting lists. In the context of the social unrest, the IDB reoriented its program to respond to the citizen demands and the PBP focused on reducing out-of-pocket expenditures. In pollution and urban planning, the contribution of the program cannot be determined because the operations have not yet been implemented and/or evaluated. In terms of simplifying government procedures for citizens, the program has made a limited contribution through the implementation of a digital platform (SUPER), but its use is still limited.

Conclusions. Although the IDB Group's contribution to the country strategy expected outcomes has been limited, the technical relationship and policy dialogue allowed the IDB Group to respond quickly to demands for financing to address the crisis resulting from the social protests and the COVID-19 pandemic, supporting relevant policy reform programs implemented by the Government. In most cases, while the Bank built on reform processes already initiated by the Government, the PBPs/PBLs provided relevant conditions that sought to effectively contribute to the country strategy SOs adopting a multisectoral perspective. However, in some sectors, the second phase or the second programmatic operation is still pending, so contributions to the expected outcomes (and deeper development of underlying reforms) will depend on the new government's political commitment to move in the outlined direction. It is also important to highlight that the IDB Group's contribution was significant when there was collaboration between the public and private sectors. Finally, the program's limited contributions in most of the SOs and their expected results raise the question of whether a more focused strategy would have allowed the IDB Group to make more substantial contributions in each SO proposed.



01

Introduction

- 1.1 This Independent Country Program Review (ICPR) analyzes the Inter-American Development Bank (IDB) Group's strategy and program in Chile during the 2019-2022 period. ICPRs assess the relevance of the Bank's Country Strategy (CS) and provide additional information on the alignment and execution of the program. If the available information allows, ICPRs also report on the progress and contribution towards achievement of the objectives set by the IDB Group in the CS. With this product, the Office of Evaluation and Oversight (OVE) seeks to provide the Boards of Executive Directors of the IDB and IDB Invest with useful information for the analysis of Country Strategies submitted to them for consideration. Like previous Country Program Evaluations (CPEs), ICPRs are based on existing operational documentation and are supported by interviews with key members of the IDB Group. However, unlike the CPEs, ICPRs include interviews with a limited number of key informants, in this case the Budget Office of the Ministry of Treasury of Chile, but do not include field visits or interviews with beneficiaries. This ICPR is structured in seven sections and an annex with supporting information. After this brief introduction, Section II sets out the country's context and briefly describes its development challenges. Section III examines the strategic objectives (SO) outlined in the 2019-2022 Country Strategy and its results matrix. Section IV describes the IDB Group's country program during the CS period, analyzes its alignment and follows up on the recommendations of the previous evaluation. Section V analyzes the implementation of the IDB Group's program and Section VI, its contribution to expected outcomes. Finally, Section VII presents the general conclusions of the evaluation.



02

Country Context

- 2.1 Chile is a high-income country but faces challenges to improving its productivity and promoting a more inclusive society. Chile is the fifth largest economy in Latin America and the Caribbean (LAC) in terms of Gross Domestic Product (GDP) and has a per capita income of close to US\$13,000 (current prices), one of the highest in the region. Chile has also been a member of the Organization for Economic Cooperation and Development (OECD) since 2010. In 2020, poverty in Chile reached 1.4% (proportion of the population living on less than US\$3.20 PPP per day), the second lowest in the region and well below the regional average (9.9% in 2019). However, while the Gini index (0.454 in 2018) is below the regional average (0.465), it is higher than the average for OECD countries (0.319). Chile is an open economy (the combined value of its exports and imports exceeds 50% of GDP and the average tariff rate is 0.6%), although not very diversified; its productive structure is dominated by the services sector, followed by manufacturing and mining.
- 2.2 During the CS period (2019-2022) the Chilean economy faced two major shocks—the social unrest and COVID-19—which caused a contraction of the economy, an increase in unemployment and higher vulnerability of the lower-income population. In October 2019 Chile faced an intense wave of social protests triggered by the population’s discontent in the face of social inequity, with a growing dissatisfaction over the price and quality of social services (health, education, transportation, electricity), as well as a growing gap between the cost of living and income (wages, pensions). In response to the protests and citizen demands, the government implemented an economic and social policy¹ program and began a process of redefining the social compact that materialized in the constitutional reform, which is still underway. With the arrival of COVID-19 and its containment measures, the Government promoted an unprecedented and comprehensive fiscal, monetary and health policy² response that was accompanied by a flexible credit line from the International Monetary Fund (IMF) approved in 2020 for US\$23.9 billion. In 2020, the economy experienced a significant contraction (6% of GDP), which began to reverse in 2021 as a result of the easing of health restrictions and an improvement in the external environment (Figure 2.1). However, this process

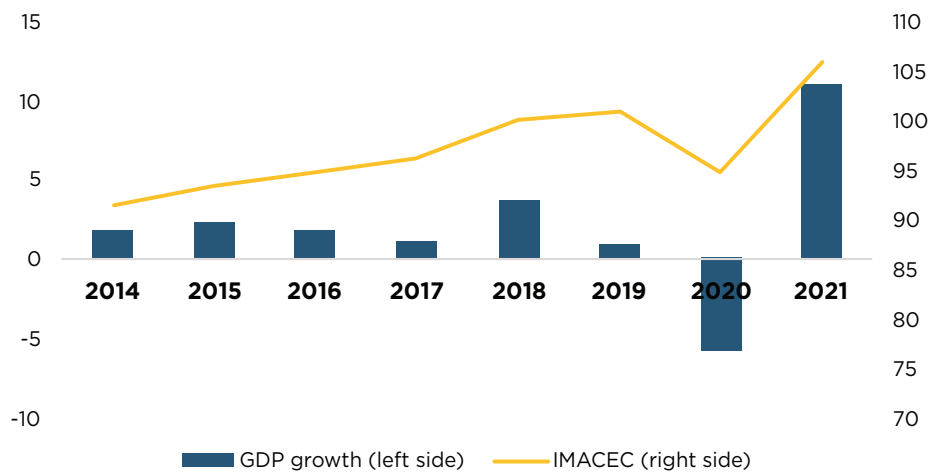
1 The measures contained in the Social Agenda and the Economic Recovery and Employment Protection Plan (US\$4.8 billion), together with previous measures to capitalize the State Bank and credit support for MSMEs, totaled US\$5.5 billion. These measures were mostly temporary in nature and focused on supporting the mechanisms for the creation and protection of jobs directly or indirectly through public investment.

2 Chile was one of the first countries to launch a national vaccination program against COVID-19, and the second-fastest country, after Israel, to administer the vaccines, with an average of 1.08 daily doses per 100 vaccinated inhabitants (Our world in data, March 2021). Also, according to the Institute for Health Metrics and Evaluation (March 2022), Chile has the lowest COVID mortality rates in the region (108.2 per 100,000 inhabitants) and in other OECD countries. Studies suggest that the success of the vaccination campaign was due both to a broad primary care network distributed throughout the territory and to the increase in hospital capacity.

has been accompanied by high inflation (7.2%) as a result of the increase in domestic consumption and global logistical problems due to the pandemic (and, more recently, Russia's invasion of Ukraine). These shocks have exacerbated and introduced new short- and long-term development challenges for Chile, which are summarized throughout the rest of this section.

2.3 Given the effects of the stimulus measures and the economic contraction on the fiscal deficit, a first challenge is to improve the efficiency of public spending and generate new sources of financing to ensure fiscal sustainability. Stimulus measures in response to the social unrest and the pandemic were financed by debt issuance and asset sales, mainly through the Economic and Social Stabilization Fund. The fiscal policy package implemented by the Government to reduce the effect of the mobility restrictions caused by the pandemic represented about 13% of GDP (US\$34 billion).³ In this context, the effective fiscal deficit in 2020 reached 7.1% of GDP (Figure 2.2). About two-thirds of the fiscal decline was due to higher spending (mainly subsidies and grants) and one-third to decreases in taxes (due to economic contraction and tax deferrals). By 2021, the fiscal deficit reached 7.6% of GDP (down from a projected 8.3%), which made it possible to start rebuilding fiscal savings ⁴(DIPRES, January 2022). Between 2019 and 2021, the country's debt increased from 28.2% to 33.1% of GDP, although it does not pose a problem for debt sustainability. Despite the most recent sovereign rating downgrades by S&P and Fitch ("A" in March 2021 and "A-" in October 2020), Chile's country risk remains the lowest in the region.

Figure 2.1
Growth rate (% of GDP) and evolution of the IMACECa
 Source: IMF, World Economic Outlook (October 2021) and Central Bank of Chile (December 2021).



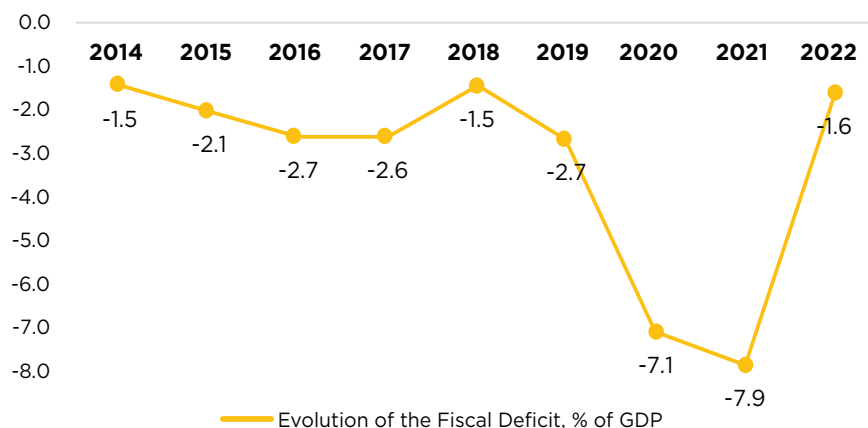
Note: IMACEC = Monthly Index of Economic Activity of the Central Bank of Chile.

3 This package focused on safeguarding the population's health, protecting income and employment (with an important component of subsidies, unemployment benefits, and tax deferrals); facilitating access to credit, refinancing, and repayments; and strengthening public investment.

4 In addition, through improvements to the spending evaluation process and the implementation of the adjusted zero-based budget, more than US\$2.2 billion was reallocated from low-performing programs to higher priority programs (Final Report of the Public Expenditure Commission, 2021. Chile cited in IDB loan document CH-L1160/21).

Figure 2.2**Evolution of the fiscal deficit (% of GDP)**

Source: IMF, World Economic Outlook (October 2021) and Budget Office (January 2022).



- 2.4 Another challenge is to ensure the recovery of employment in an inclusive manner, reducing informality and integrating population groups that have been traditionally excluded from high-quality jobs. With the containment measures implemented for the pandemic, Chile avoided the collapse of the health system, but there was a substantial drop in employment levels and an increase in informality. The impact on the labor market was significant and multidimensional, and its recovery has been slow, as it has been affected by health restrictions and the adjustment of the economy. Unemployment increased from 7.3% in 2019 to 9.1% in 2021. This, in addition to the low level of precautionary savings and weaknesses in the social protection system, impacted informality levels, which reached 28.3% in December 2021. The labor market already exhibited important shortcomings related to low productivity levels, labor precariousness and access to social security protection, which were exacerbated by the crisis.⁵ In response to the social crisis and the pandemic, the government adopted measures to protect SMEs and to create and protect jobs both directly (e.g., complementing unemployment insurance and accelerating the transition of the solidarity component of pensions) and indirectly through public investment (the plan included a series of initiatives to strengthen reconstruction and economic reactivation through investment in the regions).
- 2.5 Weak productivity performance continues to be one of the country's most important structural development challenges. Total factor productivity has shown zero growth since 2010 (Country Development Challenges Report CDC, in IDB, 2021). There are multiple factors affecting productivity growth, including limited diversification of production and exports and low levels of investment and innovation. The Chilean economy

⁵ One-third of contracts in Chile are temporary, one of the highest figures in the OECD. Although progress has been made, female and youth employment rates continue to be low.

is mainly centered on low-value, low-complexity activities and has few knowledge-intensive sectors. A capacity for innovation and adaptation to technological change are key factors for productivity growth. However, Chile performs negatively compared to other countries in terms of innovation indicators. Although Chile received the highest score (33.9) among Latin American countries in the Global Innovation Index 2020, it ranks 54th out of 131 countries evaluated (WIPO, 2020). Research and development (R&D) expenditure accounted for only 0.34% of GDP in 2019, compared to 2.52% in the OECD (OECD, 2020). These constraints impact economic growth and investment.⁶

- 2.6 Other factors affecting productivity are the lagging infrastructure endowment (physical and technological), restrictions in access to finance and deficits in human capital. Despite significant progress in technological infrastructure (e.g. internet access), Chilean SMEs do not adopt digital tools to increase their productivity, and their workforce is not skilled to work in technology-rich environments (CDC). In terms of business environment, Chile is one of the regional leaders due to its well-functioning economy, the sophistication of its capital markets and its economic openness. Despite this, the private sector still faces limitations in terms of the size of the domestic market and access to credit.⁷ Finally, the human capital deficit (resulting from the shortcomings of the educational system) has also been identified as a factor that impacts productivity performance. According to some studies (cited in the CDC), if Chile were to match the educational quality of other high-income economies, its productivity gap could be reduced by 60%.
- 2.7 Among the issues associated with climate change, Chile faces significant challenges in terms of its energy transition and water resource management. Chile undertook a process of decarbonization of its energy matrix with a significant investment in renewable energies. However, in 2019 energy generation still relied on coal sources at 37% and natural gas (19%), compared to other sources such as hydroelectricity (27.4%), solar (8.1%), wind (6.2%) and biomass (2.3%). In addition, other challenges remain, such as reducing dependence on firewood for residential heating, advancing in the process of phasing out coal-fired power plants and promoting the introduction of new technologies like the production of green hydrogen and the electrification of ground transportation. Furthermore, the process of investing in cleaner

6 Between 2015 and 2019, economic growth was stagnant at around 2% of GDP. This negatively impacted investment levels, which declined from 22% of GDP in 2015 to 15% in 2019, as well as export revenues.

7 Restrictions on access to finance for SMEs are significant: 18% of commercial loans finance SMEs, compared to 40% on average in the rest of the OECD countries. Only 7.5% of new commercial credit goes to SMEs, the lowest rate in that group of countries. "Financing MSMEs and Entrepreneurs 2020: An OECD Scoreboard."

technologies requires regulatory reforms so that end-users benefit from reduced rates. In fact, the perceived high cost of electricity became one of the strongest slogans in the social protests of 2019, prompting the government to seek policy alternatives to reform the sector aimed at increasing affordability and equity in electricity service. Regarding water resources, Chile faces significant water stress due to climate change. According to the World Resources Institute, Chile ranks 32nd out of 162 countries for water stress. In the last 10 years it has suffered a mega drought, the most severe on record in 60 years: in the last five years water availability has decreased by 37% (CDC), affecting mainly the central and northern part of the country (51% GDP).⁸

2.8 Despite the fact that Chile is a reference in the region in terms of good governance and institutional quality, the protests revealed the population's lack of confidence in its institutions. In 4 of the 6 good governance indicators (control of corruption, effectiveness of government, regulatory quality and rule of law) Chile is in a significantly higher percentile than the rest of the Southern Cone countries (Argentina, Brazil, Paraguay and Uruguay). The exception are the indicators for political stability and absence of violence, and accountability, where Chile is in second place, after Uruguay in both indicators (Annex, Figure I.1.4). Despite the anti-corruption reforms that Chile has carried out in the last decade,⁹ these have failed to reduce the perception among citizens of high corruption. According to the Latinobarómetro (2020) report, the perception towards anti-corruption efforts decreased from 36% in 2017 to 17% in 2020. Likewise, the Chilean population has expressed a general dissatisfaction with the delivery of public services, both for social services (health and education) and for the justice and security system. In fact, although Chile is one of the least violent countries in LAC, insecurity has become one its citizens' main concerns.¹⁰ Lastly, Chile made progress with its institutional reforms for decentralization and regional development, but regional lags are significant.¹¹

8 Surface water flows are highly variable over time due to the influence of various climatic phenomena and there is a time lag between supply and demand, especially for the agricultural sector. Water is used primarily by the agricultural sector (73%), followed by industry (12%), mining (9%), and sanitation (6%) (CDC).

9 Chile passed the Transparency Law in 2008, but it was not until 2015 that the Presidential Advisory Council against Conflicts of Interest, Influence-Peddling and Corruption was created. Additionally, the Lobby Law (20.730, 2014) and the Probity Law (20.880, 2016) were enacted.

10 The perception of insecurity increased from 76.8% (2018) to 84.3% (2020). In 2020, the main concern was unemployment, followed by crime (Latinobarómetro, 2020).

11 In 2021, Chile democratically elected its regional authorities for the first time and progress was made in subnational investment management processes, but there are still regulatory and competency definition challenges (CDC).

- 2.9 Improving equity in access to high-quality social services, especially education and health, is another challenge to guaranteeing equal opportunities and improving citizen satisfaction with the State. In education, Chile spends a percentage of its GDP similar to the OECD average and average schooling is high, but problems of quality and educational performance persist. There have been important achievements in basic and secondary education coverage, but challenges remain in early childhood education. In educational performance, Chile is below the OECD average in all disciplines and most indicators did not improve between 2015 and 2018 (PISA, 2018). The last decade was marked by in-depth reforms at all levels of education that covered issues of financing, inclusion, teaching careers, quality assurance and the sector's institutionalization. But these have not been sufficient to achieve significant improvements in school performance and greater inclusion. In health, Chile has the best indicators in the region, although it continues to face important challenges. Health spending increased in the last years but remains lower than in most OECD countries (5.9% of the GDP in Chile vs 7.5% of the GDP in OECD countries in 2020). Out-of-pocket spending (as a proportion of household final consumption) in Chile is higher than the OECD average (3% of the GDP in Chile vs. 1.7% of the GDP in the OECD countries in 2020). Chile has almost full health care coverage, but its public system is overstretched, with a relatively low ratio of doctors, nurses and hospital beds per million inhabitants and low use of preventive services compared with average of the OECD countries. High out-of-pocket spending and long waiting lists were the public's main societal complaints in 2019.
- 2.10 Another challenge is to strengthen social protection against systemic shocks affecting income and employment, such as those faced with the COVID-19 containment measures. To compensate for the loss of income, the COVID-19 response included a significant component of subsidies and transfers to the most vulnerable and the middle class (mainly through the *Ingreso Familiar de Emergencia*, IFE), as well as the withdrawal of pension savings. As of the third quarter of 2021, social spending in response to COVID-19 amounted to 9.5% of GDP (IDB, 2021). According to estimates by the Economic Commission for Latin America and the Caribbean (ECLAC), without the adoption of the economic measures, poverty would have increased by 3 percentage points.
- 2.11 Finally, improving elderly income remains a long-term challenge, even more so since the pension system was hit by the pandemic response and is affected by labor market informality and low productivity. As part of the COVID-19 response, in 2020, Congress approved three rounds of withdrawals, amounting to US\$50

billion (about 15% of GDP and 20% of the pension system's assets). Around ten million people withdrew in the first round and seven million people in the second round of withdrawals. By mid-2021, about three million people (25% of pension system members) had exhausted their pension funds. The IMF recommendation (Article IV) was to avoid additional withdrawals as they are difficult to target, highly regressive and weaken the pension system. The density of contributions to pension programs is low and, consequently, the level of pensions is low. Thus, the replacement rate is between 34% and 45%, compared to the OECD average of 63% (IMF, Article IV). Recently, Chile readjusted the basic solidarity pension, improved access to the old-age solidarity pension contribution and made progress in the gradual elimination of the health contribution for senior citizens. However, in the absence of reforms, present and future pensions will continue to be insufficient to ensure adequate elderly income.



03

IDB Group Country Strategy

- 3.1 The Country Strategy for the 2019-2022 period was based on a diagnosis that emphasized the recovery of economic activity after a period of downturn, which resulted from a context of reduced investment, growth in expenditures and an increase of the debt. According to the CS's diagnosis, economic activity was beginning to show signs of reactivation in 2018 (in that year, the Chilean economy recorded growth of 5.2%) and, although volatility in copper prices persisted, investment was beginning to recover, and the fiscal situation was approaching a (slow and volatile) convergence to the structural surplus target. In this context, the 2019-2022 CS set out to "support the country to resume a path of economic growth and improve quality of life for a growing middle class and population groups that remain vulnerable."
- 3.2 Thus, the focus of the 2019-2022 CS was based on two priority areas: (i) increasing investment and improving productivity; and (ii) improving the quality of life for the population. In the priority area of productivity, the CS identified six strategic objectives (SOs) related to Human Capital, focused on quality and innovation in education (SO1); Innovation, Research and Development (R&D), focused on technological innovation (SO2); Access to Financing, mainly for underserved sectors (SO3); and Infrastructure and Logistics, focused on competitiveness (SO4), connectivity (SO5) and electricity (SO6). In the priority area of quality of life, the CS identified seven SOs related to Health, focused on quality of care (SO7); Pollution and Urban Planning, with a multiple focus on connectivity and mobility (SO8), urban environment (SO9), air quality (SO10) and resilience (SO11); Aging and Pensions, focused on the sustainability of the pension system (SO12); and State services to citizens, focused on the simplification of government procedures (SO13) (Table 3.1). The strategy also specified crosscutting issues related to natural disaster risk management, climate change, gender and diversity, and areas of dialogue on decentralization, regional integration and migration.

Table 3.1. 2019-2022 Country Strategy, priority areas, strategic objectives and expected outcomes

Strategic Objectives (SO)	Expected Outcomes
Priority Area #1: Strengthen investment and enhance productivity	
Human Capital: • SO1 Enhance quality and innovation in education.	<ul style="list-style-type: none"> • Improved quality and equity of student learning at school level • Improved information and communication technology (ICT) and science, technology, engineering and mathematics (STEM) skills.
Innovation, R&D: • SO2 Promote business innovation.	<ul style="list-style-type: none"> • Adoption of digital technology
Access to finance: • SO3 Facilitate access to finance for investment, mainly for underserved segments.	<ul style="list-style-type: none"> • Expanded credit for SMEs.

Strategic Objectives (SO)	Expected Outcomes
Infrastructure and logistics: <ul style="list-style-type: none"> • SO4 Boost the competitiveness of goods exports and diversify the economy. • SO5 Narrow gaps in connectivity, low speed and affordability of ICTs. • SO6 Reduce electricity costs for businesses and households. 	<ul style="list-style-type: none"> • Improve logistics performance. • Expand ICT penetration. • Increased investment in electricity transmission and distribution systems and in electricity generation from renewable sources.
Priority Area #2: Improving the quality of life for the population	
Health: <ul style="list-style-type: none"> • SO7 Improve the health of the Chilean people. 	<ul style="list-style-type: none"> • Improve the quality of health care. • Reduce health risks for the Chilean people.
Pollution and Urban Planning: <ul style="list-style-type: none"> • SO8 Increase connectivity and mobility in urban areas. • SO9 Improve the urban environment. • SO10 Improve air quality in urban areas. • SO11 Strengthen resilience to weather events. 	<ul style="list-style-type: none"> • Improve connectivity and mobility in urban areas. • Improve the standard of housing and its environment. • Reduce exposure to air pollution in cities. • Reduce the negative impact of climate threats.
Aging and pensions: <ul style="list-style-type: none"> • SO12 Increase pensions sustainably. 	<ul style="list-style-type: none"> • Increase pensions.
Government services to citizens: <ul style="list-style-type: none"> • SO13 Simplify government procedures for the public. 	<ul style="list-style-type: none"> • Increase the number of online administrative procedures.
Crosscutting themes	
<p>Gender: Continue to support the Gender Parity Initiative in the Agenda Mujer. Diversity: Continue to support the economic participation of indigenous groups. Climate change and natural disaster risks: Support interventions in infrastructure to alleviate water shortages, continue to support efforts to find adaptation solutions and continue to promote greater use of renewable energy, electric vehicles and cleaner and more efficient urban transportation.</p>	
Dialogue Areas	
<p>Continue the dialogue on Regional Integration given Chile's strategic importance and leadership in this area. Continue the dialogue on the decentralization reform agenda, ensuring a fiscally responsible decentralization process and greater probity and transparency of sub-national governments. Maintain dialogue on issues relating to increased migration in Chile, a situation that gives rise to a set of challenges in terms of access to housing, the provision of education and health care services, and has an impact on multidimensional poverty indicators.</p>	

Source: OVE, based on the 2019-2022 CS.

3.3 The SOs in the priority area of productivity were relevant to the country's structural challenges associated with stagnant productivity, limited economic diversification and low levels of investment, providing continuity to the work previously carried out by the IDB Group. The proposed SOs sought to address the root causes associated with these structural issues, such as human capital deficits, low R&D spending, slow technological innovation/transformation processes, restrictions in access to financing and infrastructure coverage and quality. The 2019-2022 CS (and its CDC) present a comprehensive diagnosis of the country's development challenges and needs in each area, which support the proposed SOs and justify the IDB Group's intervention in the prioritized sectors. In this area, the CS continued the work that the IDB Group had been developing since the previous strategic cycle, which gave consistency to the formulation of its SOs.

- 3.4 The SOs in the priority area of quality of life were also relevant in the face of the country's structural challenges, which were echoed by the social unrest, but their approach was more dispersed. As described by the 2019-2022 CS (and its CDC), Chile was below the OECD average in all dimensions of quality of life. Although Chile had experienced a general improvement in its social indicators, citizens demanded better public resources and services, better cities for an improved quality of life, and higher pensions. Despite the reduction of poverty, Chile had not achieved improvements in equity, with the presence of highly vulnerable groups. The social protests highlighted the population's dissatisfaction with the high levels of inequity and low availability of public resources and services. However, in this priority area, the SOs of the Country Strategy were more dispersed, covering various aspects of quality of life, resulting in a crosscutting but poorly focused strategy.
- 3.5 The SOs of the 2019-2022 CS were congruent with the government's priorities expressed in its development strategy "*Construyamos Tiempos Mejores Tiempos para Chile*" (Building Better Times for Chile), in which the policies focused on four objectives: (i) recover economic growth, through greater investment in infrastructure, science, and innovation, as well as through better human capital formation and better jobs; (ii) strengthen social development, especially in child and family protection and access to health care, as well as promote an inclusive society in terms of gender, indigenous peoples, the elderly and people with disabilities; (iii) modernize the State and its institutions, to introduce greater citizen security, justice, and political decentralization; and (iv) promote smart cities, environmental protection, and resilience to climate change and natural disasters.
- 3.6 The SOs of the 2019-2022 CS were also congruent with the corporate objectives of the IDB Group. The country strategy SOs were consistent with the IDB Invest Business Plan, which prioritizes infrastructure development, building capacity to support the corporate segment and channeling resources through the financial system. Furthermore, the CS adequately justifies the coherence of its SOs with the IDB Group's corporate objectives as expressed in the IDB Institutional Strategy Update (2010-2020).
- 3.7 Overall, the country strategy results matrix provided an adequate vertical logic between SOs and expected outcomes, but it was not always feasible to measure the outcomes with the proposed indicators. While the CS results matrix included baselines and means of verification for all of its indicators, OVE found inconsistencies in the definition of baselines for some indicators (i.e., average electricity price, government effectiveness ranking, percentage of households with broadband), while for others,

the means of verification did not have the periodicity necessary for updating progress. This is the case of the health survey (*Encuesta Nacional de Salud*, MINSAL), the Urban Quality of Life Index (*Índice de Calidad de Vida Urbano*, ICVU), and the ICT Development Index (*Índice de desarrollo de las TIC*, ITU) (see detail in Annex, Table I.3.1). Finally, while the 13 SOs included in the country strategy were relevant and addressed important development challenges in the country, the question remains as to how realistic the expectation that the IDB Group could make a substantial contribution to all of the proposed SOs was.



04

Program Alignment

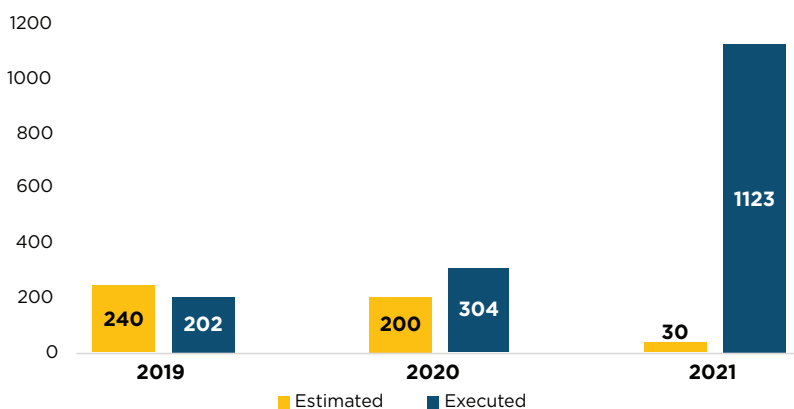
A. The Country Program

- 4.1 The IDB Group’s program in Chile includes 83 sovereign-guaranteed (SG) operations and 41 non-sovereign guaranteed (NSG) operations. This program, composed by the group of operations approved from January 1, 2019 to March 1, 2022, includes 43 SG operations and 35 NSG operations, and by the legacy operations which includes 40 SG operations and six NSG operations from previous strategic periods but still had undisbursed amounts as of January 1, 2019. Table I.5.1 in the Annex summarizes the portfolio and Appendix 1 lists the operations.
- 4.2 During the considered period, the Bank approved \$1.6 billion in SG operations, as part of its pandemic response and in the context of reduced IDB financing costs in the country. The approvals (between January 2019 and March 2022) were higher than those of the previous strategic period—US\$1.2 billion between January 2014 and April 2018—and almost tripled the estimated financing framework foreseen in the 2019-2022 CS, which anticipated SG approvals totaling US\$500 million for the entire period (Figure 4.1 and detail in Annex, Table I.5.2). In a context where IDB resources are not additional to the budget, the higher approval levels responded to increased funding demands by the Government in the face of the 2019 social unrest and the COVID-19 pandemic in 2020/21, as well as competitive IDB financing conditions in Chile during the evaluation period.¹² By 2022, Chile’s funding cost in international markets had normalized and its bonds traded at 4.29% compared to a cost of 4.13% for an IDB loan with a similar average life.¹³ However, the Chilean authorities confirmed that the lower cost of financing was one of the main reasons for requesting higher IDB approvals. With this level of approvals, the IDB Group program achieved broad coverage of the Country Strategy SOs.

Figure 4.1

Approvals in Chile (IDB-SG)

Source: OVE, based on the 2019-2022 CS and corporate databases.



¹² Indeed, although before 2019 borrowing from the IDB was slightly more expensive than borrowing in external markets, in 2020 this ratio changed and the total IDB cost became even 1.5% lower at the peak of the pandemic (Annex, Figure I.5.1).

¹³ In addition to the direct interest rate costs of the IDB loan, there are other costs to be added, such as commitment fees and supervision fees, as well as additional transaction costs incurred by the Government’s executing agency in order to comply with IDB policies.

4.3 The program made intensive use of policy-based loans (PBP/PBL), which relied on the work the IDB had been carrying out with technical assistance, allowing for a rapid response and support for necessary and relevant reforms to the development challenges identified in the country strategy's two priority areas. The SG portfolio showed a preference for this type of flexible instrument,¹⁴ which entails lower transaction costs. The technical dialogue that the IDB had been developing in the different sectors through technical advice allowed it to respond quickly to financing needs by supporting reforms that were relevant to the country's development challenges and the country strategy SOs (Box 4.1), and government measures that help to alleviate the crisis caused by the pandemic (Box 4.2). Of the total amount of SG approved during the CS period, 70.6% were PBL/PBP and 27.5% were Investment Loans (INV). A total of seven loans to support policy reforms (PBP/PBL) were approved for US\$1.2 billion, mainly in response to the country's financing needs in the face of the COVID-19 crisis, doubling the approvals of the previous period. In addition, three INV loans were approved for an amount of US\$448 million, two under the Loan Based on Results (LBR) modality for US\$400 million, and one Specific Investment Loan (ESP).¹⁵ The SG program was complemented by 32 TC operations that supported the SOs of the two priority areas, mainly through activities in client support (56%) and operational support (34%), for a total amount of US\$10.9 million (Annex, Figure I.5.3) and one investment grant (for US\$20 million) from the initiative on migration to support a key dialogue area identified in the CS (which represented 1,9% of the remaining SG approvals).

Box 4.1. PBL/PBP portfolio and its conditionalities

The PBL/PBP portfolios supported reforms that were relevant and its conditionalities were responsive to the country strategy SOs. In the strategic area of productivity, the PBL/PBPs focused on some of the country's main development challenges such as lags in R&D (PBL: Science and Technology, CH-L1148/19, for US\$50 million), fair energy transition (CH-L1165/21, first operation for US\$50 million) and digital transformation (CH-L1164/21, first operation for US\$100 million). In the strategic area of quality of life, the PBPs/PBLs supported important challenges such as deficits in the pension system, high out-of-pocket costs in healthcare, low wages for vulnerable workers, and low efficiency of public spending and budget formulation processes, which reduce the quality of spending and its ability to generate greater equity (Fiscal Sustainability and Social Equity program, CH-L1149/20 and CH-L1160/21 totaling US\$800 million). In this strategic area, a PBL was also approved for the management of sustainable investment projects (CH-L1145/19, for US\$100 million). Finally, a PBP was approved for integrity and transparency (CH-L1157/21, for US\$50 million) that was not aligned with the country's strategy SOs. Analysis of the depth of the total number of policy conditionalities (268) included in the

14 In interviews, the Chilean government confirmed the relevance of this type of flexible instrument and highlighted the IDB's technical support to the policy reform processes.

15 LBRs were approved in the productivity strategic area in conjunction with the digital transformation PBL (CH-L1166 for US\$300 million) and in the strategic area of quality of life in urban planning (CH-L1163 for US\$100 million). Furthermore, in 2019, a non-aligned SIL (CH-L1142 for US\$48 million) was approved for security purposes.

nine portfolio PBPs/PBLs showed that 43% of them were of low depth, 34% were of medium depth and the remaining 23% were of high depth. All programs included high-depth conditionalities, suggesting that, in each program, the IDB supported important components of the reform process (Annex, Figure I.6.1). One characteristic of Chile's PBL/PBP portfolio was the emphasis on monitoring and evaluation (M&E) aspects of the reforms or of the programs supported in the reform processes. Ten percent of the total policy conditionalities were M&E issues. These conditionalities are of low depth, but high relevance. For instance, evaluations of transfer programs included in income support measures showed targeting failures, and measures for improvement were recommended. Another characteristic of Chile's PBL/PBP portfolio was its multisector perspective. For instance, in the Digital Transformation program (CH-L1164 and CH-L1166) several units participated, including the Connectivity, Markets and Finance (CMF), Labor Market (LMK), Innovation to Serve the Citizen (ICS), Water and Sanitation (WAS), Climate Change (CCS), Infrastructure and Environment (INE) and Gender and Diversity (GDI); while in the Fiscal Sustainability and Social Equity program (CH-L1149 and CH-L1160) the Fiscal Management (IFD), Labor Market (MLK), and Social Protection and Health (SPH) divisions participated.

- 4.4 Approvals of NSG loans during the 2019-2022 period totaled US\$926.9 million and complemented the SG portfolio in the strategic area of productivity. In total, 14 operations were approved, of which 13 were senior loans (US\$826.5 million) and an uncommitted revolving line for US\$100 million. This level of approvals exceeded those of the previous period (US\$588.7 million). In addition, two lines of credit under the Trade Finance Facilitation Program (TFFP) were active during the period, for US\$30 million each. The NSG program complemented the SG portfolio in the sectors of electricity, telecommunications, and access to finance for SMEs. IDB Invest approved 16 advisory services for a total amount of \$0.9 million aimed at accompanying clients and building their capacity to achieve the development objectives of their operations.¹⁶
- 4.5 The program included legacy operations that had an undisbursed balance of US\$930.1 million at the beginning of the period, concentrated in the strategic area of productivity. The legacy SG portfolio included nine loan operations with an amount to be disbursed at the beginning of the period of US\$361.9 million, mostly in the strategic area of productivity. However, during the evaluation period, more than one-third (US\$110.2 million) of the undisbursed resources of this legacy portfolio were paid off.¹⁷

¹⁶ In infrastructure, support was oriented to accompaniment activities aimed at fulfilling environmental and social obligations, as well as legal support services. In financial institutions, support was provided to clients in order to introduce a gender and diversity approach in their operations.

¹⁷ The legacy portfolio includes seven investment loans (6 SIL and 1 global credit loan, GCR), five of which are concentrated in the strategic area of productivity: CH-L1138 (export services), CH-L1105 (indigenous development, which paid off the entire amount to be disbursed for the period, equivalent to US\$30 million), CH-L1098 (SMEs financing), CH-L1082 (early childhood education) and CH-L1081 (education sector management, which was modified to PBR modality). The remaining two were aligned with the strategic area of quality of life: CH-L1084 (urban development, which paid 70% of the amount to be disbursed, corresponding to US\$58 million) and CH-L1085 (citizen

The legacy NSG portfolio -i.e., with amounts approved in the previous strategic cycle, but with outstanding balances to date- included six loans: five senior secured loans totaling US\$270 million approved for the infrastructure and access to finance SOs and a revolving credit facility for US\$180 million.

Box 4.2. IDB Group response to the social unrest and the pandemic

Between 2020 and 2021, the IDB Group approved 11 operations for US\$1,441.3 million to support the Government of Chile's response to the social unrest and COVID-19; almost two-thirds of these resources were PBL (Annex, Table I.7.2). In fact, three PBLs approved during the period focused on supporting the Government's response towards economic reactivation and guaranteeing minimum levels of quality of life for vulnerable people. Between 2020 and 2021, the programmatic series of Support for Social Equity and Fiscal Sustainability (CH-L1149/20 and CH-L1160/21) was approved and disbursed for US\$800 million. Both operations covered four key areas: (i) improvement of income for the most vulnerable people (through transfers programs to low-income families and workers), (ii) optimization of the funds of the solidarity and contributory pension system, (iii) availability of lower-cost medicines and (iv) efficiency of public spending and the quality of the budget formulation process. The third PBL operation, CH-L1164/21 (Digital Transformation and Sustainable Growth program), supports the structure and legal framework for the provision of the Bono Alivio for SMEs and the provision of formal market subsidies (Labor FIE) with a gender perspective.

The global credit loan (CH-L1098/16) and the PBR (CH-L1166/21) also focused on supporting the productive sector and labor market relief. CH-L1098/16 of the legacy portfolio was modified to include permanent and transitory measures to respond to the financing needs of non-bank financial institutions (NBFIs) and support the SME credit line of the Corporación de Fomento (CORFO). The PBR (CH-L1166/21, pending ratification) complements PBL CH-L1164/21 by providing funds for the Bono Alivio (US\$200 million), with emphasis on women-led enterprises and the subsidy for formal employment (US\$50 million) to address the negative effects of COVID-19 on the labor market and the SME sector. The IDB also approved four TCs that supported the productive and health sectors. In the area of production, support was provided for a road map to address the impact of the pandemic on the creative sector (CH-T1255/21) and support for financial intermediation for indigenous businesses (CH-T1243/21). Support was also provided for the development of online tools providing information on in-demand jobs and skills and training opportunities for job placement (CH-T1233/20). Finally, in the health sector, the IDB supported the delivery capacity of the health care network and the public sector management system (CH-T1248/20).

IDB Invest's response was also important. In response to the social unrest, IDB Invest approved operations to stabilize electricity sector prices, while in response to the COVID-19 crisis, IDB Invest approved operations to provide access to finance for SMEs.

4.6 OVE identified substantial progress in following up on the recommendations of the 2014-2018 Country Program Evaluation (CPE). The previous CPE included three recommendations in the Recommendation Tracking System (ReTS), and Management prepared a Roadmap for their implementation. Regarding the recommendation to offer the country more appropriate financing instruments that help to maximize development impact while

services, which paid 63% of the resources to be disbursed, equivalent to US\$16.3 million). In addition, disbursements were completed for two PBLs from the previous period: Technical Professional Education (CH-L1095) in the productive area and Labor Intermediation (CH-L1135), which are not aligned with the SOs of the Country Strategy.

minimizing transaction costs, OVE found that the IDB Group met its goal on the use of innovative instruments, mainly the financing of budget lines through the LBR,¹⁸ the extensive use of loans to support policy reforms (PBL/PBP) and the approval of an hybrid program that combined a PBP with a LBR¹⁹, which made it possible to reduce preparation and execution times and expenses (see Section V below). Progress was also noted on the recommendation to develop a shared knowledge agenda between the IDB and the Government of Chile, mainly through key knowledge products such as the survey of COVID response policies in Chile and the Digital Action Plan, as well as through FFS. Between 2019 and 2022, the IDB invoiced US\$290,000 in payment for Fee-based Finance Advisory Services (FFS), which allowed it to support dialogue on cross-cutting issues and strengthen public-private coordination areas.²⁰ Finally, in relation to the recommendation to promote coordination of public and private sector windows, OVE recognized progress in terms of effective collaboration in energy (ENE-IDB Invest), electromobility (TSP-IDB Lab), financial inclusion (IFD-IDB-IDB Invest-IDB Lab), silver economy (LMK-IDB Invest), and migrations (HUD-IDB Lab) (Annex, Section IV).

B. Alignment of the program with the strategic objectives

4.7 The IDB Group program exhibited strong alignment with three of the six SOs of the CS in the priority area of productivity. This area concentrated more than 59% of the approved resources and undisbursed balances of the legacy portfolio, with significant participation from IDB Invest. The approvals of the NSG portfolio focused mainly on the SOs of access to financing and energy, while the approvals of the SG portfolio focused on institutional issues supporting the SOs of human capital (education), energy, innovation (science and technology), and competitiveness (exports) and access to financing (Table 4.1).

18 Review of the LBR by the SPD allowed Chile to use this instrument to address OVE's recommendation to finance budget lines, adding value.

19 The Digital Transformation and Sustainable Growth Program combines a PBP (CH-L1164) with a LBR (CH-L1166). Both operations were conceptualized as complementary, share a single Loan Development Proposal and were jointly approved in 2021.

20 In 2016, the Ministry of Finance and the IDB signed a Framework Agreement (Decree 1039) that allows Chile to access specialized technical advice provided by Bank personnel, simplifying the hiring process. Through the FFS, the IDB Group continued to strengthen the policy dialogue on the cross-cutting issue of decentralization, supporting social evaluation issues and strengthening IDB/IDB Invest coordination areas, through the evaluation of the social impact of compensation funds.

Table 4.1. Country Program SGs and NSGs by their alignment with the strategic objectives^a

Strategic Objective S = Strong Alignment W = Weak Alignment		Legacy (balance to be disbursed)			Approvals 2019-2022		
		SG	NSG	TC	SG	NSG	TC
I. Strengthen investment and enhance productivity (US\$3,522.9 million)							
1 Enhance quality and innovation in education (W)	Nº of operations	3	0	2	0	0	1
	Amount (US\$M)	80.7	-	0,2	-	-	0.1
2 Promote business innovation (W)	Nº of operations	1	0	1	3	0	2
	Amount (US\$M)	72.9		0.2	450		0.4
3 Facilitate access to financing for investment, mainly for underserved segments (S)	Nº of operations	2	6	2	1	6	2
	Amount (US\$M)	102.9	49	0.7	300	176	0.6
4 Boost the competitiveness of goods exports and diversify the economy (W)	Nº of operations	1	0	2	0	2	1
	Amount (US\$M)	20.10	-	0.40	-	112	-
5 Narrow gaps in connectivity, low speed and affordability of ICTs (S)	Nº of operations	0	1	0	2	1	2
	Amount (US\$M)	-	422.60	400	-	51.50	0.80
6 Reduce electricity costs for businesses and households (W)	Nº of operations	1	4	1	1	25	4
	Amount (US\$M)	0.9	120.3	0.1	50	1,108.5	2
II. Improve the quality of life for the population (US\$2,300.4 million)							
7 Improve the health of the Chilean people (W)	Nº of operations			3	2		2
	Amount (US\$M)	-	-	0.30	800	-	0.50
8 Increase pensions sustainably (S)	Nº of operations			1	2		1
	Amount (US\$M)	-	-	-	800	-	0.10
9 Simplify government procedures for the public (S)	Nº of operations	1		3	3		5
	Amount (US\$M)	25.90		0.40	220	-	2.10
10 Increase connectivity and mobility in urban areas (S)	Nº of operations			3	2		5
	Amount (US\$M)	-	-	1	70	-	2.10
11 Improve the urban environment (S)	Nº of operations	1	1	1	2	1	2
	Amount (US\$M)	82.20	2.50	0.50	100	16.50	1
12 Improve air quality in urban areas (S)	Nº of operations	0	0	0	22	0	6
	Amount (US\$M)	-	-	-	70	0	2.50
13 Strengthen resilience to weather events (W)	Nº of operations	0	0	2	1	0	4
	Amount (US\$M)	-	-	0.90	100	-	1.90
Non-Aligned COVID-19 Response (US\$ 0.4 million)							
Non-aligned COVID-19 Response	Nº of operations						2
	Amount (US\$M)	-	-	-	-	-	0.40
Non-aligned (US\$152.4 million)							
Non-aligned	Nº of operations	2		13	2		9
	Amount (US\$M)	50.40	-	1.40	98	-	2.60

Source: OVE, based on the CS and review of the IDB Group program. Details in Annex, Table I.7.1.

Note: ^a Operations aligned with more than one SO were fully accounted for in each SO.

- 4.8 In human capital, the IDB Group program was partially aligned with the SO of increasing the quality of education and its expected outcomes. The IDB program included interventions at all educational levels (preschool, basic, middle and higher). At the basic and middle education level, it supported the educational reform and its decentralization process (CH-L1081/15). In early childhood education, it sought to close the gaps in coverage and quality through a package that included infrastructure (nurseries and preschools), as well as training for educators and a center management and evaluation system. At the professional technical education (PTE) level, it supported the development of a decentralized governance model for PTE, promoting improvements in supply, and quality assurance (CH-L1095/15; CH-T1216/19). However, the program did not address the outcome of improved ICT and STEM skills.
- 4.9 The IDB Group program exhibited strong alignment with the SO of access to finance, while in business innovation and export competitiveness the alignment was weak. To achieve the expansion of financing to SMEs, the SG program focused on providing lines of finance to MSMEs through CORFO (CH-L1098/16)²¹ while the NSG program continued to support clients in the segment of non-bank financial institutions (NBFIs). In addition, in response to COVID-19, the IDB supported the granting of Relief Bonds to MSMEs (CH-L1166/21). On the other hand, under the SO of promoting business innovation, the IDB Group program supported reforms in the governance of the innovation system through the creation of the Ministry of Science and Technology and promoted the business innovation agenda on circular economy (CH-L1164/21; CH-L1166/21). However, these operations were not aligned with the expected outcome for this SO in terms of increased adoption of digital technologies. Finally, although the CS set out to achieve competitiveness SOs by improving logistics performance,²² the program was focused mainly on strengthening the global export services segment (CH-L1138/17) and implementing the Strategic Investment Fund to support the diversification of the economy (CH-L1134/17). IDB Invest also did not have operations related to improving logistics performance, but it continued to support the SO with its presence through the TFFP program and supported one company to diversify its export offer.

21 The component targeting MSMEs through savings and credit cooperatives initially had an approved amount of US\$50 million, which was increased in the context of the pandemic. The loan had two other components: (i) Factoring for US\$50 million and (ii) Leasing for US\$20 million.

22 Only one TC supported this expected outcome: CH-T1167/16 analyzing the economic, logistical and commercial components of the project called Large-Scale Logistics Network (Red Logística de Gran Escala, RLGE) that considers port, road, rail and terminal infrastructure in Chile's central macro-zone.

- 4.10 In infrastructure, the IDB Group program was strongly aligned with the SOs to narrow connectivity gaps and reduce electricity costs. In connectivity, the SG program supported the improvement of public infrastructure for digital connectivity (especially in the interior areas of the country), the regulatory framework for adoption of 5G mobile technology and regulations for the digital transformation of State services; and sought to promote the gender approach in the adoption of digital technologies (CH-L1164/21; CH-L1166/21). The NSG program supported telephone companies to finance access to smartphones. Regarding electricity, through the Fair Energy Transition program (CH-L1159/21, and its respective TCs), the IDB supported regulations to guarantee an affordable electricity service²³ and promoted actions to accelerate the transition of the energy matrix and create a framework policy to promote new energy technologies (i.e., green hydrogen). For its part, through financing power generators, IDB Invest made it possible to implement Law 21.1815 to stabilize increases in electricity prices. In addition, the NSG program granted direct financing to non-conventional renewable energy (NCRE) projects for US\$274 million and financed the bills of electricity distribution company clients who may have delayed their payments in the context of the pandemic.
- 4.11 In the priority area of quality of life, although the amounts were lower and the country strategy SOs were more dispersed, the program showed strong alignment with 5 of the 7 SOs. In this area, the IDB Group's response to the social unrest and the pandemic was important both in terms of the rapid delivery of resources that helped finance part of the measures to alleviate the effects of the crisis on the quality of life for the population, and in terms of support for the reforms needed to advance the Government's Social Agenda, which were partially aligned with the country strategy (see Box 4.2). In response to the social crisis and the pandemic, the IDB program included in its social equity programmatic series (CH-L1149/20 and 1160/21) conditionalities that sought to improve the adequacy of solidarity pension systems (Law 20.255) and develop an actuarial model that allows estimating the level of the contributory pension system (Decree Law 3.500), as well as improving the service of the AFPs, showing a strong alignment with the SO and its expected result of contributing to the increase in pensions. In health, the IDB had been working in the sector mainly with TC on issues of service quality and prevention, which were strongly aligned with

²³ In the context of the social unrest of 2019, the affordability of energy came to play a fundamental role in public policy decisions. The reforms that supported the conditionalities included the creation of legal frameworks to stabilize the cost of electricity prices and reform the distribution segment through a review of its profitability, the improvement of the distribution tariff process, and the promotion of competition through user portability between companies.

the country strategy SOs. In the context of the social unrest and the pandemic, out-of-pocket spending was prioritized. In this sense, although the conditionalities of the PBP, which focused on improving the availability of medicines at a lower cost, were weakly aligned with the SOs its expected results, they responded to the public demands in the context of the social unrest.

- 4.12 In pollution and urban planning, the IDB program had a strong alignment with the SOs of improving the urban environment, air quality and mobility in urban areas, while the alignment was weaker in terms of the SO of resilience. To improve the urban environment, the IDB Group program included two complementary interventions: (i) a pilot program (CH-L1084/15) to improve living conditions and the environment of neighborhoods with emblematic infrastructure using a decentralized management model; and (ii) a program to reduce informal settlements (camps) (CH-L1163/21).²⁴ The IDB addressed the air quality and urban mobility SOs through its Fair Energy Transition program (CH-L1159/21), which supports the reduction of exposure to air pollution in cities through a residential energy transition strategy²⁵ and the decarbonization of the energy matrix.²⁶ Likewise, the program supports the adoption of the regulatory framework and policies focused on electromobility in urban areas. In terms of resilience, although one of the main challenges that the camp program (CH-L1163/21) sought to address is the relocation of households exposed to environmental risks and natural disasters,²⁷ due to its scope, the program's contribution to the expected outcome of reducing the negative impact of climate hazards is considered rather weak.
- 4.13 In terms of simplifying procedures, the IDB program was strongly aligned with the SO. The IDB program supported the creation and operation of an institutional structure for the efficient processing of investment projects (CH-L1145/19) through the strengthening of the Public and Private Organizations that intervene in the processing of investment projects and the preparation of proposals for improvement in the regulatory frameworks that affect the processing.

24 This LBR has several distinctive characteristics: it finances a budget line adding value with its technical proposal, it incorporates the cross-cutting theme of migration (the migrant population in the camps went from 3% to 50%), and it uses donation resources from the migration initiative (US\$20 million).

25 This strategy seeks to enable heating alternatives other than firewood. A third of homes use firewood for heating; these are concentrated in areas where around 85% of particulate matter emissions come from firewood combustion.

26 Part of this strategy includes the retirement of coal-fired plants that, in 2019, were responsible for 25% of GHG emissions.

27 In 2019, it was identified that 27% of the camps were located in risk areas, in addition to 14% that are exposed to floods and 60% at risk of drought.

- 4.14 Some programs in the portfolio (representing 2% of approved amounts) were not aligned with the country strategy SOs. In this sense, despite the fact that both citizen security and labor market issues were considered a priority area in the CS (§3.19 and §3.22), the results matrix did not include SOs for them.²⁸ Likewise, despite the fact that the IDB had been working on issues of transparency and probity, the CS did not include an SO in this regard either.²⁹
- 4.15 Finally, it is important to highlight that the program was able to effectively internalize crosscutting issues, mainly related to gender, diversity and climate change. Fifty-eight percent of SG operations (25) mainstreamed gender issues, while 21% (9) also included diversity issues. Thirty-three percent of the SG operations (27) and 15% of the NSG operations (7) mainstreamed climate change and/or disaster risk issues (Annex, Section VII).

²⁸ Thus, the Program to Strengthen the Strategic Management of Public Security in Chile (CH-L1142/19) and its respective TC, and the Labor Intermediation Program (CH-L1135/17) and its respective TC (CH-T1189 /17), were not aligned with the country strategy SOs.

²⁹ The PBP Support for the Strengthening of Integrity and Transparency Systems in Chile (CH-L1157/21) was not aligned with the country strategy SOs.



05

Program Implementation

- 5.1 Responding to greater demands for liquidity to face the effects of the social crisis and the pandemic, disbursements of the SG loans far exceeded the estimate in the country strategy, while disbursements of the NSG loans increased 154% compared to the previous period. The CS estimated SG portfolio disbursements of US\$661 million for the 2019-2022 period. At the end of 2021, SG loan disbursements had reached US\$1.6 billion, exceeding estimates by almost 60%. This amount represented more than double the disbursements of the previous period (US\$670 million) (Annex, Figure I.8.1). This was mainly due to PBL/PBP disbursements, which went from representing 67% of total disbursements in the previous period to 86% during the analysis period.³⁰ On the side of investment loans, during the evaluation period, US\$170 million was disbursed from the legacy portfolio and only US\$3 million from the approved portfolio.³¹ Greater demands for liquidity to face the effects of the pandemic and the crisis on public finances explain the increase in disbursements from the SG portfolio. IDB Invest, for its part, had a notable increase in its disbursements, which totaled US\$1.8 billion between 2019 and 2022, equivalent to 154% more than the previous period (2014-2018). This was due to the multiple disbursements of the short-term revolving facilities granted during the COVID-19 crisis.³² Unlike previous periods, the TFFP program had a low share of disbursements (US\$77 million vs. US\$126.2 million in the previous period). If revolving facilities are excluded, IDB Invest's disbursement trend in this period was similar to the previous one. During the current period, these disbursements totaled US\$511 million and only increased 4.7% vs. the previous period. This is largely due to the fact that investment projects take longer to disburse and are tied to progress in construction processes (Annex, Figure I.8.2).
- 5.2 Loan expenses for preparation and execution for both INV and PBL in Chile decreased significantly. Compared to the previous period, INV loan preparation expenses decreased drastically from US\$9,541 to US\$2,009 per million approved. These were lower than the average for the Country Department Southern Cone (CSC) (US\$2,762) and the IDB average (US\$6,070). INV

30 On the side of the PBL, the two programs (CH-L1148/19 for innovation and CH-L1145/19 for simplification of procedures) were fully disbursed in 2021. As for the programmatic series (PBP), the series that emerged as a response to the crisis (CH-L1149/20 and CH-L1160/21) was fully disbursed during the evaluation period, while the energy (CH-L1159/21) and transparency (CH-L1157/21) programmatic series disbursed the first programmatic loan in 2021.

31 Only the public security program (CH-L1142/19) disbursed 6% of the resources, while the LBRs are not yet eligible for disbursement.

32 The revolving facility granted during the COVID-19 crisis was used to finance the bills of customers in the electricity sector and disbursed US\$511.5 million (32% of total disbursements for the period) and the revolving facilities to finance clients of telecommunications companies had disbursements for US\$474.1 million (26% of the disbursements for the period).

loan execution costs were also cut in half (from US\$24,809³³ to US\$13,436 per million disbursed), slightly above the CSC US\$9,932, but below the IDB average US\$22,889 (Annex, Figure I.7.1). On the PBL/PBP side, both preparation and execution expenses were cut in half compared to the previous period (from US\$2,5826 to US\$1,336 in preparation and from US\$2,354 to US\$1,183 in execution), although they would be above CSC expenditures (US\$705 in preparation and US\$902 in execution) and the IDB average (US\$999 and US\$772 respectively).

- 5.3 Loan preparation times (INV and PBL) decreased while execution times remained stable. The most significant decreases occurred in the early phases of project preparation. Indeed, the time elapsed between registration and the approved POD (3.4 months for INV and 2.6 months for PBL) was reduced by half for both instruments (Annex, Figures I.8.1 and I.8.2), accounting for a rapid response to the demands of the Government of Chile in the context of the crisis and the pandemic during the CS period and despite the mobility restrictions imposed by the pandemic. The rapid response is explained, in part, by the programs that were approved and disbursed during the period being in sectors where the IDB had previously worked with the Government through technical assistance and policy dialogue. These averages were lower than the CSC average (5.1 months for INV and 3.8 months for PBL/PBP) and the IDB average (5.8 months for INV and 5.1 months for PBL/PBP).
- 5.4 The CS identified three main risks: macroeconomics, exposure to natural disasters and execution risk for implementation of the program. According to the CS, a possible deterioration in the external context (i.e., an increase in interest rates in external financing or a drop in fiscal resources) would jeopardize the goals of the government program, and consequently, the implementation of the CS. Chile's exposure to the risks of natural disasters and vulnerability to the effects of climate change also posed a risk for the implementation of the CS, so the IDB decided to address these issues in its program, adapting the interventions to the environmental reality. Finally, limitations in the fiscal space of the line ministries and the lack of budgetary additionality of the INV loans were considered a risk because they reduce the incentive for their execution. To mitigate this risk, the IDB proposed carrying out periodic reviews of the portfolio with its counterparts and supporting its execution.

³³ This may be explained by a combination of factors that include the increase in the average size of operations (which went from US\$64.3 million in the 2018-2018 period to US\$149.3 million in the 2019-2022 period), the lower number of INV operations approved (which was reduced from 7 to 3) and/or the type of instrument used (INV vs. LBR).

- 5.5 In practice, both the macroeconomic risks (increase in the external financing rate) and execution risks (low levels of execution of the INV loan portfolio) materialized as a consequence of the social unrest and the pandemic. The economic and social impact of these shocks introduced changes in the Government's priorities based on financial, fiscal and social needs. Indeed, the main factors that affected the implementation of the IDB Group program during the CS period were the social unrest and the pandemic. These shocks generated a general cessation of activities for several months (which affected most of the projects in the portfolio at different times during their execution) and a change in the Government's priorities. The IDB Group responded by refocusing some operations in the portfolio under execution (i.e., CH-L1098/16) or approving new operations to support the government in its response (CH-L1149/20 and CH-L1160/21). Finally, some legacy portfolio INV operations were affected by the lack of prioritization in their budget allocations (execution risks).³⁴ In the case of the urban development (CH-L1084/15) and indigenous development (CH-L1105/16) operations, the budget restrictions, together with the low levels of disbursements, precipitated their cancellation.³⁵ Regarding the NSG operations, the pandemic generated a contraction in the demand for goods and services and problems in the supply chain. IDB Invest's infrastructure operations (12380-02, 12995) faced delays in execution due to biosafety measures. Other factors that affected the implementation of the program, mainly for the legacy portfolio, were design flaws and changes in public administration. Design flaws affected urban development (CH-L1084/15), indigenous development (CH-L1105/16), and SME financing (CH-L1098/16) operations. The changes in public sector administration affected preschool education (CH-L1082/14), urban development (CH-L1084/15), and educational management (CH-L1081/15) programs.
- 5.6 The CS proposed continuing its support for strengthening national systems with substantial progress in international accounting standards, auditing, and procurement systems, but limited support for the Comptroller's Office and the accounting and reporting system (SIGFE). The IDB exceeded the country strategy goals in terms of training in International Accounting Standards for the Public Sector³⁶ and South-South cooperation (with 13 countries and entities that received strengthening and

34 This is the case for the citizen services management operation (CH-L1185/14), which had significant delays in its implementation.

35 These operations had an average disbursement of less than 25% (2019). The pandemic and the change in government priorities led to the cancellation of undisbursed amounts.

36 Two activities were carried out: 1) Regional training sessions on International Public Sector Accounting Standards IPSAS (2019) - E&Y; 2) Diploma in International Accounting Standards for the Public Sector NICSP-CGR of the Republic of Chile - Universidad Santiago de Chile.

cooperation support from Chile). In acquisitions, the number of South-South cooperation actions reported by ChileCompra increased from 8 to 48. Additionally, the Government of Chile highlighted the specific support for the validation of the Single Fiscal Account (Cuenta Única Fiscal, CUF) through the implementation of a pilot in two traditional investment operations (CH-L1138/17 and CH-L1142/19) which includes a centralized payment system through the General Treasury of the Republic that allows harmonizing the fiduciary requirements of the IDB and the country. However, progress with the Office of the Comptroller General of the Republic was modest since a consensus has not been reached to continue with the evaluation of institutional performance. In addition, no progress has been made in the use of SIGFE (Annex, Table I.3.2).



06

Contribution to
the Strategic
Objectives

6.1 This section summarizes the progress of the IDB Group program and its contribution to the country strategy SOs and its expected results. Of the country program operations, six SG loans closed during the period: three from the legacy portfolio and three PBLs approved during the evaluation period. Only two projects have validated Project Completion Reports. For their part, six of the reviewed NSG operations have reached early operational maturity. Of the 13 SOs of the CS, the IDB Group program made a substantive contribution to the expected results in two SOs: energy and access to finance. It was limited in eight SOs, either because the program did not contribute to the expected result (education, competitiveness, innovation, health) or because the program had a limited scope (pensions, urban environment, urban mobility, and simplification of procedures). For the remaining three SOs (connectivity, air quality, and resilience), it was not possible to determine the contribution to the expected results because the operations have not yet been implemented or because the programmatic series are not complete. In this sense, the limited contributions in most SOs and their expected results raise the question of whether a more focused strategy would have allowed the IDB Group to make more substantial contributions in each SO proposed.

A. Priority Area: Increasing investment and enhancing productivity

6.2 In education, although the IDB program was broad and substantial progress was made at all three educational levels, the outcomes of improvements in the quality of learning were not measured, and improvements in ICT and STEM skills were not supported. The CS included an SO of enhancing the quality and innovation of education and two expected results of improving the quality of learning and improving ICT and STEM skills. The main contributions were made in the area of quality through interventions at the three educational levels. In basic and middle education, the IDB supported approval of the New Public Education System Act (2017) that made progress in the decentralization process for the educational management system, successfully implementing 11 (of a goal of 17) local services for public management, which have pedagogical support plans to improve the quality of basic and secondary education. However, because of the pandemic, outcomes could not be measured in terms of improvements in the quality of learning.³⁷ In preschool

³⁷ Due to the pandemic, Chile did not apply the SIMCE test measuring the results of educational performance. According to the interviews, in 2022 this system was discontinued and the opportunity to measure the outcomes of the reform in terms of improvements in the quality of the education system was lost.

education, although the evaluation of the quality of preschool facilities was carried out and the program supported technical training in pedagogy for 487 supervisors and 9,907 educators, measurement of learning quality indicators was not carried out. In middle and higher education, the program accompanied the institutional creation of Professional Technical Education (PTE) through support for two key laws: the one that creates technical training centers (Law 20.010) and the one that regulates them (Law 21.091), which was approved between the second and third tranches of the PBL and stipulates the implementation of the qualifications framework that will improve PTE quality and its adaptation to the labor market. According to the program's PCR (not yet validated by OVE), the targets of aligning state programs with the qualifications, enrollment, and capacity-building framework for quality assurance of training centers were achieved, but outcomes in terms of quality of learning were not measured.³⁸ Neither program supported the expected results of improved ICT and STEM skills. At the country level, the indicators established in the CS (outcomes of PISA tests between 2015 and 2018) did not show improvements.

- 6.3 The IDB Group program contributed to the SO of promoting business innovation through the institutionalization of the National Innovation System, but no contribution to the expected result of technology adoption was verified. To overcome R&D gaps and accelerate technology adoption in companies, the CS proposed to promote business innovation as a SO. The expected results was defined based on an increase in the adoption of digital technologies measured by an increase in the ICT Development Index of the International Telecommunications Union. This index was not published again, so its evolution cannot be verified. However, through loan CH-L1148/19 and its respective TC (CH-T1229/20), the Bank supported the establishment of the Ministry of Science, Innovation and Technology (Decree 2226, 2019), whose new institutional structure allowed Chile to improve its functions, structures, and processes to command, strengthen and strategically guide the science, technology and innovation system.
- 6.4 Regarding the SO of access to finance, the IDB Group program showed a substantial contribution to the expected results in terms of expansion of credit to SMEs. To promote greater access to financial services, the CS proposed to increase credit to underserved segments such as SMEs. During the CS period, there was a slight increase at the country level in the percentage of new commercial loans for this segment, which went from 7.50% (2017) to 7.8% (2020). Regarding the contribution of the IDB Group program:

³⁸ The PCR performs an attribution analysis based on the theory of change and qualitative analysis of the reform implementation process.

- a. Through CORFO, the IDB channeled resources for US\$200 million to support SMEs through relatively small NBFIs and those with greater difficulty in accessing stable sources of funding (CH-L1098/16). According to preliminary information from CORFO, the participating NBFIs showed an increase of 4% in the program's credit placements in 2020 and 52% in 2021. In addition, the cumulative growth rate of commercial credit placements of the total NBFIs receiving IDB loan funds, from 2016 to September 2021, was 26%, exceeding the initial goal of 3% by a factor of nine.
 - b. IDB Invest directed its financing to SMEs by working with factoring companies and other NBFIs larger than those served through CORFO. The operations validated by OVE during the 2019-2022³⁹ period show that IDB Invest clients effectively achieved their goals of increasing financing to SMEs. Furthermore, the legacy operations that already have preliminary results show contributions to the SO through the growth of the SME portfolio. The only exception was due to the COVID-19 crisis, where the client had difficulty launching a new agricultural credit product financed by IDB Invest for underserved segments. The NSG operations approved during the CS period (2019-2022) are recent, and although their design is consistent with the expected results for this SO,⁴⁰ it is still early to determine their contribution.
- 6.5 The IDB Group program had a limited contribution to the SO of increasing the competitiveness of exports and the diversification of the economy. The program partially contributed to the SO of improving export competitiveness, but not to the expected result in terms of improving logistics performance. Indeed, only one TC (CH-T1167/16) was focused on the expected result of improving logistics performance in the transport and telecommunications sector with very specific contributions.⁴¹ Nonetheless, through operation CH-L1138/17, the IDB contributed to the objective of increasing competitiveness by supporting the export sector of high value-added services. This operation supported the

³⁹ It corresponds to operations originated before the merge-out and that after reaching operational maturity (EOM) were evaluated and validated by OVE during the 2019-2022 period.

⁴⁰ The three factoring operations approved in the period for an amount of US\$66 million are aimed at supporting these financial intermediaries to continue increasing financing for SMEs. Furthermore, in pursuit of strengthening additionality, the operations include the mobilization of resources with international banks that are opening relationships for the first time with these factoring companies. Management stated that it is strengthening the portfolio segmentation work of these clients so that future operations are more focused on new niches (for example, SMEs led by women).

⁴¹ CH-T1167/16 which supported the Ministry of Transport and Telecommunications with the Large-Scale Network Logistics (RLGE) project, achieving the completion of studies that included infrastructure needs for the port sector, recommendations to minimize the impact of the logistical and regulatory barriers for the brokers, definition of the legal structure of the logistic service companies and projections of the origin and destination of the products of the foreign trade of Chile.

strengthening of the Government's capacities to attract foreign companies oriented toward exporting high value-added services. The preliminary results of the operation show the arrival of 14 new foreign companies with a vocation for exporting services established in the Chilean market. In addition, the "Digital Talent Initiative" program trained 13,765 people in skills demanded by the export sector of global services,⁴² of which 70% have managed to successfully find jobs in the export sector.

- 6.6 The contribution of the IDB Group program to narrowing connectivity gaps cannot be determined due to the incipient nature of SG operations and the limitations in the NGS operations indicators. The CS proposed expanding ICT penetration measured through the percentage of internet access in rural households and the percentage of households with fixed broadband. While there is no information available to measure the progress of the first indicator, the percentage of households with fixed broadband shows significant progress, going from 48.03% in 2017 to 66.5% in 2021.
- a. On the part of the SG program, the policy conditions approved in the programmatic loan (CH-L1164/21) are focused on decentralizing the access to ICTs and promoting the digital transformation of the State. Specifically, these actions consisted of the development of submarine infrastructure in the south of the country and the approval of fiber optic concessions in Chile's interior. This PBP also included conditionalities related to the approval and operationalization of the State Digital Transformation Law, which established governance for the digitization of government services. Finally, it also included an intervention to promote access to ICTs with a gender focus, although with very limited coverage.
 - b. In the NSG program, the design of the operations does not allow measuring the contribution to the objective since they were structured as lines of credit to facilitate access to financing for intelligent mobile units. The monitoring indicators do not measure whether they are effective in closing the gaps in connectivity, speed, and affordability. Despite these limitations, through the annual supervision report, OVE was able to verify that this financing line is on track to achieve its goals for customer financing volume (100%), although it is lagging behind in terms of the number of clients financed (82%). For its part, another operation has been recently approved and does not yet have preliminary results.

⁴² According to the project's diagnosis, the lack of trained personnel was one of the reasons most cited by the private sector as a limitation on being able to attract foreign companies in the global export services sector and thus improve competitiveness.

- 6.7 The IDB Group program had a substantial contribution to the expected outcome of increasing investments in transmission and distribution systems, as well as in generation through non-conventional renewable energies (NCRE). The strategic objective in the CS was to support the country in reducing electricity costs (SO6) and the CS set out to measure the evolution of average electricity prices. According to the price indicators proposed in the CS, the most recent figures indicate that the cost of electricity for the industry increased slightly from US\$159/MWh (2018) to US\$164/MWh (2020), while the residential segment shows a decrease from US\$197/MWh to US\$180/MWh in the same period. Despite these outcomes during the evaluation period, the IDB Group made specific contributions to the expected results in terms of increased investments in electricity transmission and distribution systems, and in generation from renewable sources:
- a. On the SG program side, the activities carried out in the context of the Fair Energy Transition program (CH-L1159/21) contributed to generating the legal and regulatory frameworks for reforming the distribution sector, make price stabilization feasible,⁴³ set up actions to accelerate the transformation of the energy matrix and prepare the regulatory framework for new energy technologies. These actions were carried out between 2019 and 2020 during the preparation of the PBP and had technical support from the IDB on issues of developing a market for green hydrogen, the preparation and development of a national strategy for digitalization of the energy sector, the implementation of reforms in modernization of the electricity sector (which includes the strategy to develop renewable thermal technologies), support the energy transition of the residential thermal matrix and the decarbonization of the energy matrix.
 - b. On the side of the NSG program, the support program for the stabilization of electricity prices has already initial results where it is observed that the prices for end users stabilized at the values set out in the results matrix. In addition, the only electricity distributor company that participated in the customer bills financing facility also shows progress in financing targets for customers with lower electricity consumption, although it did not achieve the goals proposed in the financing of customer bills with the benefit of payment deferral for COVID-19. Regarding direct financing for NCRE projects (wind and solar), they still do not have preliminary outcomes because they are in the construction stage.

⁴³ OVE evaluated these policy conditions as profound because they required the modification of the legal regulatory framework and resulted in permanent changes in the sector.

- c. One characteristic of the intervention in this energy sector was the broad level of articulation between the interventions of the public and private windows. The work at the policy and reform level of the IDB was oriented toward meeting the Government's two strategic priorities: to make energy costs more affordable and to achieve this objective by promoting a regulatory framework that facilitates investments in clean energy with lower-cost technology. IDB Invest was able to invest and mobilize more than US\$600 million because this regulatory framework was conducive to promoting more innovative financial structures, such as the monetization of CO2 emission reductions and making the electricity price stabilization mechanism bankable.

B. Priority Area: Increase in the quality of life for the population

6.8 In the area of aging and pensions, the IDB Group partially contributed to the objective of increasing pensions in a sustainable way. Chile did not manage to increase the gross pension replacement rate of the average worker as proposed in the CS.⁴⁴ However, in the context of the social unrest and the pandemic, the policy measures of the Fiscal Sustainability and Social Equity PBP (CH-L1149/20 and CH-L1160/21) supported the government in the legal reform that allowed to increase permanently the basic solidarity pension and complementary pension contribution; helping to mitigate the impact of present and future pension withdrawals of the most vulnerable population.⁴⁵ However, the legislation approval and a reform of the pension system that manages to increase pensions in a sustainable way and increase replacement rates is still a pending issue.

6.9 The IDB Group program contributed to the SO of improving the health of the Chilean through a series of TCs focused on improving the quality of health care system and a PBP that supported the reform to reducing the out-of-pocket expenditure.⁴⁶ The IDB contributed to the expected results of improving the quality of health care mainly through its TC operations (CH-T1201/17, CH-T1211/18 y CH-T1248/20) that supported a more efficient management of waiting lists in the public health system, the

44 Gross replacement rates per average worker fell from 33.5 (women) and 30.3 (men) in 2016 to 31.2 (women) and 28.8% (men) in 2020 (OECD, 2021).

45 Without them, withdrawals would have caused an average pension reduction of 16%. The estimated net effect is 5% thanks to the existence of the Solidarity Pillar. This contribution of the State is equivalent to between 0.05% and 0.12% of annual GDP or 3.5% of GDP in discounted present value (IMF, 2021).

46 The CS proposed to measure these results through prevalence indicators of overweight, obesity and survival of people with cardiovascular diseases, for which there is no information to determine their progress.

regulation of the medical devices, and the improvement of efficiency in the use of public resources allocated to health infrastructure. However, responding to the demands that originated from the social unrest in 2019, the IDB's loan program in the sector (CH-L1149/20 and CH-L1160/21) was redirected and focused on reducing out-of-pocket expenses. The PBP supported a series of policy measures to improve the availability of lower-cost medicines, which included the enactment of Law 21.198 (first programmatic) which allowed the Central Supply of the National Health Services System (Central de Abastecimiento del Sistema Nacional de Servicios de Salud, CENABAST) to broker the purchase of medicines for private pharmacies and determine the maximum retail price that pharmacies can charge for products purchased from the central supply. With this mechanism, it was estimated that people spent 61% less when buying at these pharmacies. However, this program did not contribute directly to the expected results of the CS in terms of improvements in the quality of health care, or in the reduction of health risks.

- 6.10 In terms of pollution and urban planning, the contribution of the IDB Group program cannot be determined because the operations have not yet been implemented and/or evaluated. For the SO of improving the urban environment, the CS proposed to reduce the country average of the Urban Life Quality Index (*Índice de Calidad de Vida Urbana*, ICVU) of towns and cities, which decreased significantly between 2108 (41) and 2020 (30). However, there is no contribution from the IDB Group program since the patrimonial neighborhood revitalization operation (CH-L1084/15) was canceled with a low disbursement percentage (35%) and the informal settlement operation (CH-L1163/21) has not yet started implementation. For the SO of fostering resilience to climate events and its expected results in terms of reducing the negative impact of climatic threats, the CS proposed to measure the number of disaster events caused by weather events. However, there is no information to measure either its progress or the contribution of the IDB program. For the SO of improving air quality and urban mobility, only a limited contribution can be verified through the Fair Energy Transition program, which showed progress in defining the residential energy transition strategy, reaching agreements for the withdrawal of coal plants, and regulating electric vehicles.
- 6.11 The contribution of the IDB Group program to the SO to simplify government procedures for the public is limited. As part of the Government's priorities to modernize the State and its institutions, the CS sought to increase the number of digital procedures, but this indicator does not report progress.⁴⁷ The

⁴⁷ Chile was placed in the 80.3 percentile in 2017 and in 80.8 in 2020. For more information visit: https://www.theglobaleconomy.com/rankings/wb_government_effectiveness/

sustainable investment project management program (CH-L1145/19) supported implementation of the digital platform for development of the central processes of the Sustainable Project Management office; the use of the SUPER platform to manage permits digitally in some public and/or private organizations that intervene in the management of permits for investment projects; and the implementation of a tool for monitoring the progress of permits for investment projects. However, the use of the platform is still limited, so the contribution to the SO is also limited.



07

Conclusions

- 7.1 Chile has a solid institutional framework, per capita income above the regional average and low country risk. However, it still faces challenges in achieving sustainable and equitable economic growth. Between 2019 and 2022, the Chilean economy faced two major shocks: the social unrest and the COVID-19 pandemic. The Chilean government's response was a coordinated deployment of economic, fiscal, and monetary policy programs that met the most immediate needs in health and social protection but resulted in an increase in the fiscal deficit and the level of indebtedness. Chile faces important structural challenges to recover its historical rates of economic growth (e.g.: improve the performance of productivity and investment, overcome lags in infrastructure and access to finance, and deficits in human capital), maintain fiscal sustainability (i.e., improve the quality of public spending and generate new sources of financing) and achieve greater social equity (reduce informality, improve equity in access to social services, and improve the income of the pension system). Although by 2022, Chile had recovered economic activity to pre-pandemic levels, the new government will have to face important reforms, which must be resolved in parallel with the constitutional reform that will set the tone for these transformations.
- 7.2 The 2019-2022 CS was relevant and focused on key issues to address the country's structural challenges. However, although the SOs in the productivity area continued various work areas of the IDB Group in the country, the SOs in the quality-of-life area were more dispersed. The CS was based on a complete diagnosis of Chile's development challenges, and its SOs were relevant to the country's needs, both in terms of productivity and quality of life. The CS addressed the structural challenge of improving the country's competitiveness to recover economic growth, especially the country's lag in entering international markets with more complex goods and services. In addition, the priority area of improving quality of life was aligned with the Government Plan, which emphasized adopting public policies more focused on promoting equity and expanding the coverage of public services. However, the SOs in this area were more dispersed and the program was less focused. The CS was also aligned with the IDB Group's corporate objectives expressed in its institutional strategy and with IDB Invest's business plans.
- 7.3 Between 2019 and 2022, the IDB Group program almost doubled the level of approvals over the previous period, achieving broad coverage of the SOs and responding to the increased demands for financing caused by the pandemic. In fact, the SG program more than tripled the financing framework defined in the CS. It is important to mention that, although Chile's financing policy continued to privilege bond placements in national and

international markets, the impact of the pandemic on external financing rates opened up space for the IDB to expand its level of participation with competitive costs. The IDB Invest portfolio also grew significantly, doubling the amounts of the previous strategic period, complementing the SG portfolio in the strategic area of productivity. The higher levels of approval responded to greater demands for financing by the government and private sector agents, and to the response capacity exhibited by the IDB Group in the context of the social unrest and the pandemic. This rapid response capacity is explained, in part, by the program being built on the previous work that the IDB had been carrying out in the country, mainly through TCs and policy dialogue. With this level of approvals, the IDB Group program achieved broad coverage of SOs.

- 7.4 The IDB Group program was partially aligned with the country strategy SOs in its productive area, where there was also complementarity between the public and private windows. However, the expected results were not consistently addressed. Thus, through the SG program, the IDB: (i) supported the Government in its educational reform processes at all three levels, seeking to increase the quality of education, although without addressing the expected results in terms of ICT and STEM skills; (ii) accompanied the creation of government entities responsible for promoting innovation, although without addressing the expected results in terms of technological adoption; and (iii) advised in the recomposition of the institutional framework to strengthen the export of services and the financing of strategic investments, promoting their diversification, but without addressing the expected results in terms of logistics performance. On the other hand, working in a complementary manner through its public and private windows, the IDB Group accompanied the reforms in the energy and telecommunications sector to promote the adoption of new technologies and the transition to a cleaner and fairer energy matrix. The NSG program made possible the price reduction reforms in the electricity sector, continued to finance investment in NCRE generation projects, and sought to improve the population's access to new mobile technologies. Finally, the IDB Group provided financing for the productive sector through NBFIs and factoring companies, including an injection of liquidity to SMEs during the pandemic.
- 7.5 The IDB Group program was partially aligned with the SOs of the country strategy in its priority area of improving quality of life. However, the program did respond to the short-term challenges arising from the social unrest and the pandemic, mainly in health and pensions. In fact, the conditionalities of the Fiscal Sustainability and Social Equity PBP were aligned with the SOs and the expected results of the CS in the area of pensions

and partially aligned in the area of health, whose emphasis, in response to the social unrest, was on reducing out-of-pocket health expenses and not on improving the quality of care and risk reduction proposed in the CS, which was addressed through the TC operations. The alignment of the program was strong in relation to improving the quality of citizen services through simplification of processes. The program incorporated a climate focus, mainly in urban development, which allowed for a strong alignment with the environmental quality, air quality, and urban mobility Sos. However, in terms of resilience, the program's alignment was weak due to its limited scope to achieve the expected results.

- 7.6 In terms of implementation, the composition of the portfolio enabled the IDB Group to respond with disbursements that were countercyclical and to improve execution performance indicators. The disbursements of the SG and NSG portfolio far exceeded the forecasts of the CS and of the previous strategic cycles. The composition of the portfolio, focused on fast-disbursing instruments (PBL/PBP), together with the greater demands for liquidity to face the effects of the crisis on public finances, explain, to a large extent, the increase in SG portfolio disbursements. Likewise, the 2019-2022 portfolio had better execution in terms of time and expenses for both preparation and execution. In addition, the cancellations of INV operations that exhibited low levels of disbursement and faced budget restrictions, helped to free up financing space to meet the temporary needs derived from the social unrest and the pandemic. In the NSG portfolio, the increase in disbursements from revolving lines (i.e., financing of invoices in the electricity sector and telecommunications clients), explains the high levels of IDB Invest disbursements, which also exceeded the historical average.
- 7.7 Although the IDB Group's contribution to the expected outcomes of the CS has been limited, technical and policy relationships allowed the IDB Group to respond quickly to the demands for financing to address the crisis resulting from the social protests and the COVID-19 pandemic, supporting relevant policy reform programs implemented by the Government. In most cases, while the Bank built on reform processes already initiated by the Government, the PBPs were supported by the previous work of the IDB through technical cooperation and advice, and it supported relevant conditionalities that sought to contribute effectively to the country strategy SOs. The main contributions to the SOs and their expected results were in the areas of energy and access to finance. On the other hand, although the PBPs also supported the creation of science and technology institutions, and the modernization of telecommunications, in these areas there is no contribution to the results expected in the CS.

Likewise, in some sectors (science and technology, and digital transformation), the second phase or the second programmatic operation is still pending, so the contributions to the outcomes (and the deepening of the underlying reforms) will depend on the new government's political commitment to move in the direction outlined. On the other hand, there are also evaluability limitations that did not allow verifying the contribution of some operations (i.e., education operations did not measure progress in learning quality, and smartphone financing operations did not measure gaps in speed and adoption of new technology). Finally, the limited contributions in most of the SOs and their expected results raise the question of whether a more focused strategy would have allowed the IDB Group to make more substantial contributions in each SO proposed.

- 7.8 The IDB Group's contribution was significant when there was collaboration between the public and private sectors. The IDB Group program had important contributions in the expansion of productive financing where the program included complementary SG and NSG interventions, which served different market segments, and where the operations that already have results show a substantial contribution through the increase in their portfolios for SMEs and other unattended segments. It is also important to mention the tangible role that the IDB Group had in materializing the reduction in electricity prices through policy dialogue, support for sector reform and the implementation of a commercially viable financing mechanism to attract resources from the private sector to the sector.

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