Office of Evaluation and Oversight

Country Program Evaluation

Chile

2011-2013

IDB
Inter-American Development Bank
June 2014

This Country Program Evaluation (CPE) with Chile covers the 2011-2013 period and is the third occasion on which the Office of Evaluation and Oversight (OVE) has evaluated the Bank's program with the country. The previous evaluations covered the periods 1995-2005 (document RE-320) and 2006-2010 (document RE-380-1). Under the Protocol for Country Program Evaluation (document RE-348-3), the main goal of a CPE is to "provide information on Bank performance at the country level that is credible and useful, and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance."

The current country strategy (document GN-2642-1) was approved in December 2011 and is for a period (2011-2014) that does not coincide with the country's political cycle. The administration of President Piñera was in office from March 2010 to March 2014. IDB Management expects to submit a new country strategy to the Board of Executive Directors in August 2014.

The evaluation is structured into four chapters, plus annexes. Chapter I analyzes the general context in the country. Chapter II provides a general analysis of the Bank's program in 2011-2013, with particular reference to the relevance of the country strategy, and an analysis of the program actually implemented. Chapter III provides a sector-based analysis of the implementation, effectiveness, and sustainability of the operations and of the progress achieved towards the Bank's proposed strategic objectives. Chapter IV presents conclusions and recommendations.

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Country Program Evaluation:

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Summary

Abbreviations

AGCI	Chilean International Cooperation Agency
CCLIP	Conditional credit line for investment projects
CDE	State Defense Council
CPD	Country program document
CPE	Country Program Evaluation
CTF	Clean Technology Fund
DIPRES	Budget Office
ESCOs	Engineering and energy service companies
GDP	Gross domestic product
ICT	Information and communication technologies
IMF	International Monetary Fund
INAPI	Instituto Nacional de Propiedad Intelectual [National Institute for Intellectual Property]
MoED	Ministry of Education
NCRE	Nonconventional renewable energy
NGO	Nongovernmental organization
NSG	Non-sovereign guaranteed
OECD	Organization for Economic Cooperation and Development
OMJ	Opportunities for the Majority Sector
PDL	Performance-driven loan
PPP	Purchasing power parity
SCF	Structured and Corporate Finance Department
SENCE	National Employment Bureau
SERNAM	National Bureau for Women
SG	Sovereign-guaranteed
SPM	Senior public management
SUBDERE	Subsecretaría de Desarrollo Regional [Regional Development Undersecretariat]
TFFP	Trade Finance Facilitation Program
TFP	Total factor productivity
UE	European Union
UF	Chilean development unit

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Executive Summary

Context and Bank strategy

Fuelled by a stable macro-environment, open trade practices, sound institutions and a commodity price boom, Chile's economy has witnessed one of the highest growth rates in Latin America and the Caribbean over the past two decades. The strong economic performance led to a tripling in per capita GDP between 1991 and 2013 and a substantial reduction in poverty, but inequality remains one of the highest in Latin America and the Caribbean. Growth was largely driven by factor accumulation, while productivity lagged behind. The government's strong fiscal position led to low sovereign spreads and upgrades in credit ratings, providing the government with ample opportunities to meet its financing needs under favorable conditions in the domestic and international financial markets. High growth resulted in historically low unemployment; however, women's participation in the labor market remains low. Strong employment protection measures hamper formal employment opportunities for low-skilled workers. Access to education has improved, but quality remains a concern.

The Country Strategy for 2011-2014 was developed in a challenging context. The aftermath of the Transantiago[1] experience and the new government's focus on emergency assistance and reconstruction after the 2010 earthquake made it challenging for the Bank to enter into a dialogue with the new government. In addition, the government's debt policy focused on issuing bonds to cover financing needs. Such funds were readily available at financial terms similar to Bank funds, but could be accessed more quickly and with lower transaction costs. In addition, debt financing through bonds also helped fulfill other fiscal policy objectives, such as the internationalization of the peso and financing in pesos and "unidades de fomento" or development units. Consequently, the government had little interest in financial

[1] The loan approved in April 2008 (US$400 million) for Transantiago's Financial Manager (AFT, an entity subject to private law) was designed to support the new public transportation system in Santiago, implemented in 2007, in view of the refusal by Congress in late 2007 to approve budget subsidies for the system's financial deficit. The loan disbursed US$288 million. However, in September 2008, the decrees that authorized AFT to take the loan without a sovereign guarantee were declared unconstitutional by Chile's Constitutional Court. As a result, the loan was canceled and repaid by the Chilean government in December 2009. The Bank suspended loan approvals between September 2008 and November 2009.

assistance from multilaterals, including the Bank. In 2010-2011 it requested full or partial cancellation of 11 Bank loans in the amount of US$326 million. Seven of these had been approved shortly before the change in administration but were never signed, with the remainder having fallen considerably behind on implementation and disbursement due to design problems.

In this context, the 2011-2014 strategy identified technical cooperation and knowledge transfer as the cornerstone of the Bank's engagement in Chile and envisaged a new role for the Bank as knowledge provider and broker. The strategy nevertheless envisaged an estimated annual sovereign guaranteed (SG) lending of US$30 million for a total envelope of US$120 million in 2011-2014, an ambitious and unrealistic amount in view of the substantial loan cancellations that had preceded it. The strategy identified eight key areas of intervention for which it established strategic goals (labor markets, climate change, transportation, science and technology, public sector management, citizen security, trade and integration and public financial management and procurement). It furthermore envisaged that the Bank would deepen its dialogue on education, indigenous peoples, and social protection in view of future potential lending operations. While the objectives set out by the strategy were consistent with some of Chile's key development challenges and aligned with government priorities, they were unrealistically ambitious given the limed financial contributions and isolated technical assistance the Bank could provide in Chile. Furthermore, the strategy did not set any strategic objectives in some key areas, such as subnational support and education, despite the significant lending and technical cooperation portfolio.

Bank Program 2011-2013

Faced with a government that was not inclined to borrow, the Bank struggled to engage on the public sector side during 2011-2013. Actual sovereign guaranteed (SG) approvals were limited to three small operations amounting to a total of US$17.3 million. In the few areas where SG lending was approved, the Bank's engagement built on previously completed analytical work and dialogue that demonstrated to Chilean policy-makers that the Bank possessed the technical capacity, professional network, and impartiality to add value. However, loan processing was lengthy in two of the three cases, and Bank staff spent a considerable amount of time responding to ad hoc requests by counterparts as the loan-funded programs were waiting to get off the ground. This resulted in high preparation and initial execution costs relative to the loan amounts.

Given the lower demand for sovereign guaranteed lending, the Bank tried to engage through technical cooperation grants, which often took a considerable amount of time to begin execution and were costly for the Bank. The Bank's portfolio contained 46 technical cooperation grants in 2011-2013, of which 25 were approved during this period. Approvals of technical cooperation and other grants (investment grants) in 2011-2013 amounted to US$17.2 million, compared to US$17.3 million of SG loan approvals. The Bank frequently assumed executing responsibility for technical cooperation grants in order to ensure government interest. While some Bank sector units saw this as an opportunity to complement their administrative budget to undertake knowledge work, Bank execution of technical cooperation grants had significant associated costs. For example, between 2011 and 2013, there were a total of 114 transactions (WLMS) associated with loans, and 1,081 for technical cooperation grants. In this context, the cost of the Chile program increased in 2011-2013 compared to the period covered by the previous strategy (2006-2010), with the increase largely associated with the significant costs of the technical cooperation program (per million disbursed), which between 2011 and 2013 were four times higher than those of the SG lending program. This underestimates the actual cost of the technical cooperation program, given the large number of staff hours not associated with outputs and charged to general activities (e.g. portfolio supervision, fiduciary activities).

The Bank engaged more successfully through non-sovereign guaranteed (NSG) operations, particularly in the energy sector where it found a market niche. Local presence and outreach were important factors in putting the Bank on the map and educating private entrepreneurs about available NSG products. The Bank approved a total of US$502.7 million in NSG operations in 2011-2013 for renewable energy, foreign trade operations, agroindustry, and financial markets.

Implementation and results

The Bank's portfolio during the evaluation period consisted of 16 SG loans, nine NSG operations, and 46 technical cooperation operations. Of these, 13 SG loans had been approved before 2011, and had design and implementation problems. At the start of 2011, there were also three active NSG operations and 21 technical cooperation operations.

The Bank had a portfolio of two small loans and nine technical cooperation operations to support *Modernization of the State and Citizen Security.* In contrast to other sectors, the technical cooperation portfolio was largely recipient-executed, with strong client ownership. The Bank helped Contraloría make notable inroads in a number of areas, provided technical inputs to the National Civil Service Directorate, improved crime data collection and analysis, and helped the Ministry of Social Development establish an ex ante evaluation system for social programs. In general, the Bank achieved better results when it provided focused technical support to strengthen specific institutions than when it provided inputs to policy reforms. The loans in support of the judiciary and the State Defense Council had significant execution delays caused by a lack of leadership in the implementing agencies.

The Bank's portfolio for *support at the subnational level* contained six operations, which had been approved during 2005-2008. All of them suffered from considerable design shortfalls. Four had been approved within the framework of a US$400 million conditional credit line for investment projects (CCLIP) and accounted for the bulk of loan approvals in 2006-2008. They focused on strengthening subnational management capacity, rural water and sanitation, solid waste management, and historical monuments preservation. All four of them had been designed as performance-driven loans (PDLs) with disbursements to occur against achievement of agreed upon results and verification of incurred related expenditures. All four suffered from significant design deficiencies, resulting in unrealistic results targets that prevented timely disbursements. Moreover, the lack of operating guidelines made the instrument hard to use. With little prospect of disbursements in 2011, the government requested cancellation of the remaining balances of two loans and partial cancellation of a third.

Although the entire loan for solid waste management was cancelled, the Bank's engagement helped develop and introduce a solid waste management program funded by the national budget to help municipalities comply with stricter environmental regulations through comprehensive, sustainable solid waste treatment. The PDL to strengthen subnational management capacity was reformulated to focus largely on preparation of plans and policy proposals, with little attention to implementation. It has started a process of strengthening planning and management capacity of local governments, although much remains to be done. The historical monuments preservation program introduced the concept of historical monument preservation into public policy and helped establish a core of professionals in the national and regional governments to handle appraisal, design, and management of preservation projects, but linkages to increased economic activity are still weak. The urban development project in Valparaiso had mixed results and was refocused. Although it fell short of the originally established targets, it helped recover and rehabilitate public spaces, landmark and private buildings, make some inroads in waste management and pest control, and develop and implement a tourism development plan. A Bank-supported operation to establish regional agencies to foster productivity in a coordinated fashion failed to have a sustainable impact due to changes in government policy.

The Bank engaged effectively, albeit at high cost, in the area of *labor markets,* building on previously completed analytical work which demonstrated to Chilean policy-makers that it possessed the technical capacity, professional network, and impartiality to add value in potentially contentious areas through evidence-based analysis. Lengthy loan processing, including government delays, institutional capacity constraints of executing agencies, and procurement delays have, however, led to slower than expected implementation of the program to rationalize and improve the effectiveness of training and labor market insertion programs. Some initial inroads have been made on strengthening management capacity of the National Training and Employment Agency (SENCE) and improving some training programs based on evaluations carried out under the operation.

The Bank's program in the *education sector* consisted of nine technical cooperation operations. The main beneficiaries for over half of these were local nongovernmental organizations (NGOs) engaged in various initiatives either to develop specific interventions to bring education or vocational training to vulnerable groups or to find innovative ways to bring motivated teachers to the classroom. While these technical cooperation operations mostly delivered the expected outputs, the Bank's engagement was limited to one-off support and did not result in any models or information that influenced government policy or teaching and learning at a larger scale. Nor did the technical cooperation operations in support of the Ministry of Education succeed in substantially deepening the sector dialogue. The Bank tried to leverage most of the education technical cooperation operations to generate knowledge through evaluations. Some knowledge was created, but there is no evidence that it was used by education policy-makers in Chile, nor that it made a significant contribution towards deepening the Bank's dialogue with the government on key issues affecting the education sector.

On the *private sector side,* the Bank's program included two credit operations in financial markets with limited additionality that experienced implementation delays. Another loan to finance the investment plan of a leading agricultural exporter was effectively combined with technical assistance on the technical specifications for the construction of a solar energy facility and to identify investment opportunities to improve the conditions of the families of harvest workers.

By combining a technical cooperation operation and a small loan, the Bank is helping Chile introduce an *integrated trade system* (SICEX), a high government priority to streamline processes for exports of goods and services. Similarly, a well-focused and timely technical cooperation operation has helped the National Institute of Industrial Property (INAPI) restructure its organization, reform some its key processes, and digitize a large backlog of patents, leading to substantial improvements in the Institute's turn-around times for patent and trademark processing.

The Bank approved a number of operations to support the government's efforts to jump start *nonconventional renewable energy.* It became a strategic partner to the recently established Ministry of Energy. The Bank's program in this area has been characterized by strong complementarity between technical cooperation operations and loans and effective coordination between public and private sector windows, helping Chile identify opportunities in the field. The Bank has helped develop and

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cofinance a number of potentially transformational projects, many of which were pioneering initiatives in Chile or in Latin America and the Caribbean. The Bank has also played an important role in the preparation and financing of a large hydropower project.

A loan to support the second phase of the *Orígines* program (Integrated Indigenous People's program) suffered from design and implementation problems that impacted its achievement of certain outcomes. It helped introduce participatory methods to identify and plan local development projects that were subsequently improved with the help of a technical cooperation operation. It financed local initiatives in over 1,100 communities and expanded programs to render education and health services more culturally attuned to needs of indigenous communities. Two other technical cooperation operations to support entrepreneurship of indigenous peoples and develop a multicultural development program for indigenous peoples in urban areas produced various isolated outputs but overall focus, lacked government counterparts, and had high transaction costs for the Bank.

In sum, the majority of SG operations approved prior to 2011 suffered from design shortcomings and generally failed to achieve their expected outcomes. Where technical cooperation operations were used to respond to specific government priorities and thus enjoyed government ownership, like the nonconventional renewable energy program or the Contraloría projects, the technical cooperation operations made specific useful contributions, demonstrating that the Bank can add value in areas where it has the technical capacity and country knowledge to respond. Technical cooperation operations that had no clear government champions, like those on indigenous peoples, generally lost focus, while those benefiting NGOs generally produced expected outputs but failed to generate a broader impact. Some of the Bank's recently approved operations, such as those in renewable energy, reforms of the labor training system, and the integrated trade system, harbor the potential to make a significant contribution in their respective areas if implementation stays on course.

Conclusions and recommendations

Given its limited financial engagement and the relatively narrow focus of technical cooperation operations, the Bank did not have the means to make significant progress in achieving the ambitious objectives set out in the strategy for Chile. The findings of this evaluation suggest that the Bank needs to rethink how it formulates its objectives and strategies in higher-middle-income countries such as Chile, where its role is likely to be opportunistic and limited to focused support driven by government demand. The Bank made some important isolated contributions that helped inform specific government programs and strengthen capacity, but they were costly for the Bank. While Bank support generated some knowledge that usefully responded to specific government demands, OVE found little evidence that this was systematically captured to be shared more broadly. A mutual collaboration agreement between the Chilean International Cooperation Agency (AGCI) and the IDB signed in 2012, but which has not yet made significant progress in its implementation, potentially offers opportunities in this area.

The evaluation also highlights the challenges of engaging in a timely, cost-effective manner in a higher-middle-income country such as Chile, particularly on the public sector side. A few small loans, a large number of mostly Bank-executed technical cooperation operations, and a sizable country office have together constituted a relatively expensive work model in the country, a model that is not likely to be sustainable for higher-middle-income countries as a whole. This suggests that the Bank needs to reconsider how it engages in higher-middle-income countries which do not look to the Bank to cover their financing needs.

Based on these findings OVE has the following recommendations:

1. Frame the country strategy around realistic objectives that are within the Bank's capacity to achieve. The Bank's engagement in Chile will need to be flexible and timely, most likely focused around key issue areas where the Bank has recognized technical expertise and nonfinancial value-added. It is unlikely that the Bank's engagement can make major contributions along a broad array of ambitious strategic goals for the country, and the country strategy should recognize this by setting appropriate and attainable objectives.

2. Explore instruments for engagement that are cost-effective over the long term for Chile as well as for other higher-middle-income countries that may not ask for a traditional program of financing for the public sector. The Bank needs to adapt its existing instruments and explore new vehicles for engagement that are cost-effective and sustainable over the long term, unlike the recent mix of a few small loans and many technical cooperation grants. Options to explore might include, for example: (i) an umbrella agreement for a program of technical support to be provided on fee-for-service or cost-sharing basis, with individual interventions agreed upon semiannually or annually, in the scope of the Policy for Fee-based Advisory and Knowledge Services; (ii) a reconfigured performance-driven lending instrument; (iii) an agreement with the government to borrow a certain amount through an umbrella credit line to finance investment in key areas of collaboration; (iv) an agreement with the government to borrow a certain amount each year as budget support, possibly conditioned primarily on strong overall macroeconomic performance, in exchange for a program of targeted technical support in mutually agreed priority areas.

3. Ensure beneficiary execution of technical cooperation operations. To the extent that technical cooperation operations will continue to be used, the Bank should make beneficiary execution the norm rather than the exception in Chile. This will ensure government ownership and involvement in their implementation.

4. Continue to identify niche areas for private sector support where the Bank can add value and have the potential to play a catalytic role. The potential to add value may be particularly strong, for example, when the Bank's support to the private sector can be combined with support for policy and regulatory reform through the Bank's public sector window.

5. Develop an institutional approach to systematically capture and share knowledge generated through Bank engagement in Chile for the benefit of the region. Chile has accumulated a significant body of good practice experiences in the design and implementation of public policies, and the Bank has contributed in some areas through technical advice and evaluations of such policies and initiatives. The Bank should make progress on internally capturing and systematically documenting the results and lessons learned from operations in Chile, as well as in other countries, and make them easily accessible to Bank staff and other important stakeholders. To the extent that such technical expertise and knowledge is transferable to other countries in the region, the Bank should take advantage of the recent agreement with AGCI to facilitate such a transfer.

OVE Recommendations and Management's Response

OVE Recommendation	Management's Response
Frame the country strategy around realistic objectives that are within the Bank's capacity to achieve. The Bank's engagement in Chile will need to be flexible and timely, most likely focused around key issue areas where the Bank has recognized technical expertise and nonfinancial value-added. It is unlikely that the Bank's engagement can make major contributions along a broad array of ambitious strategic goals for the country, and the country strategy should recognize this by setting appropriate and attainable objectives.	**Agree.** • However, the main instruments of the Bank's programming process—country strategies and country programming documents—lack the flexibility needed to design more realistic strategies in terms of defining their scope and expected results, since these must be differentiated for middle-income countries such as Chile, given their different demands and changing priorities. • The new guidelines resulting from the extensive review of the programming process and its main instruments—which is being conducted jointly by the Bank's Board of Executive Directors and Management—are expected to provide enough flexibility to enable these client countries to choose the areas and ways they engage with the Bank, while providing the Bank with the agility it needs to "engage in a timely and cost-effective manner in highermiddle-income countr[ies]…"
Explore instruments for engagement that are cost-effective over the long term for Chile as well as for other higher-middle-income countries that may not ask for a traditional program of financing for the public sector. The Bank needs to adapt its existing instruments and explore new vehicles for engagement that are cost-effective and sustainable over the long term, unlike the recent mix of a few small loans and many technical cooperation grants. Options to explore might include, for example: (i) an umbrella agreement for a program of technical support to be provided on fee-for-service or cost-sharing basis, with individual interventions agreed upon semiannually or annually, in the scope of the Policy for Fee-based Advisory and Knowledge Services; (ii) a reconfigured performance-driven lending instrument; (iii) an agreement with the government to borrow a certain amount through an umbrella credit line to finance investment in key areas of collaboration; (iv) an agreement with the government to borrow a certain amount each year as budget support, possibly conditioned primarily on strong overall macroeconomic performance, in exchange for a program of targeted technical support in mutually agreed priority areas.	**Agree.** • We agree with the objective of this recommendation, we also believe that, as a first step, it is important that the Bank be able to use the existing financial and operational instruments and incorporate the necessary flexibility into them, thereby ensuring efficient execution mechanisms that can be tailored to the characteristics of countries such as Chile, with the additional challenge of adapting financial instruments to the countries' level of income and institutional capacity. • Accordingly, in December 2013 a workshop was held in Chile to share experiences with the performancedriven loan (PDL) instrument in the Southern Cone countries. The workshop's report will be forwarded to the Office of Strategic Planning and Development Effectiveness (SPD) as input for the review and adjustment of the PDL policy and the preparation of the corresponding operating guidelines. • The Country Department Southern Cone (CSC) will request the formation of a working group to study mechanisms for implementing the local currency policy in Chile. • Regarding implementation of the current policy for fee-based advisory and knowledge services, a request has been received in the context of tax reform. In addition, an operation using the "umbrella"

	model is currently in preparation that will facilitate specific institutional strengthening interventions.
Ensure beneficiary execution of technical cooperation operations. To the extent that technical cooperation operations will continue to be used, the Bank should make beneficiary execution the norm rather than the exception in Chile. This will ensure government ownership and involvement in their implementation.	**Agree.** • Because a program of operations has already been concluded with the government, the need for Bankexecuted technical cooperation operations is not anticipated. However, the Bank will continue to directly execute such operations associated with operational inputs or research and dissemination, given the nature of such cooperation.
Continue to identify niche areas for private sector support where the Bank can add value and have the potential to play a catalytic role. The potential to add value may be particularly strong, for example, when the Bank's support to the private sector can be combined with support for policy and regulatory reform through the Bank's public sector window.	**Agree.** • As this evaluation points out, the private sector windows' engagement in Chile represented a significant step forward for the Bank, establishing a niche for renewable energy projects. • Following this strategic focus, two such projects—related to solar and wind power—are currently in preparation. In keeping with this recommendation, during the new country strategy period, the Bank's energy-related work through the public sector will channel support to, and complement the private sector interventions by strengthening the regulatory framework. • On the private sector side, the Infrastructure Division (SCF/INF) has confirmed that there is interest in having the Bank participate in a second financing operation to support the transportation and concessions area.
Develop an institutional approach to systematically capture and share knowledge generated through Bank engagement in Chile for the benefit of the region. Chile has accumulated a significant body of good practice experiences in the design and implementation of public policies, and the Bank has contributed in some areas through technical advice and evaluations of such policies and initiatives. The Bank should make progress on internally capturing and systematically documenting the results and lessons learned from operations in Chile, as well as in other countries, and make them easily accessible to Bank staff and other important stakeholders. To the extent that such technical expertise and knowledge is transferable to other countries in the region, the Bank should take advantage of the recent agreement with AGCI to facilitate such a transfer.	**Agree.** • During the 2011-2014 country strategy period, the Bank developed an institutional framework for knowledge transfers based on a memorandum of understanding (MOU) to support South-South cooperation, with the aim of transferring experience and knowledge from Chile to other countries of the region. • To strengthen this MOU, an action plan will be established to promote its objectives. As OVE indicates in paragraph 3.27 of its report, the MOU was supplemented with a technical cooperation operation for Chile's International Cooperation Agency (AGCI). Following a significant delay that has been resolved, the technical cooperation operation's expected results are on track to be achieved over the next two years. • We agree with OVE and believe that the Bank has an important role to play as a catalyst and intermediary for these kinds of initiatives. Consequently, work will continue in this regard through the interventions currently under way, and efforts will be made to identify complementary mechanisms.


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1 Overall Country Context

Chile has been characterized by having one of the fastest-growing economies in Latin America and the Caribbean. In the 1991-2013 period, real GDP grew at an average annual rate of 5.1% (Figure 1), while real per capita GDP (PPP) tripled to US$19,607 in 2013, one of the highest levels in the Latin American and Caribbean region (Figure 2). This strong economic performance is largely due to the introduction and consolidation of open trade practices, a stable macroeconomic policy framework, and a solid institutional framework and governance, creating a favorable environment for private investment. In May 2010, Chile was accepted as a full OECD member in recognition of its sound economic performance.

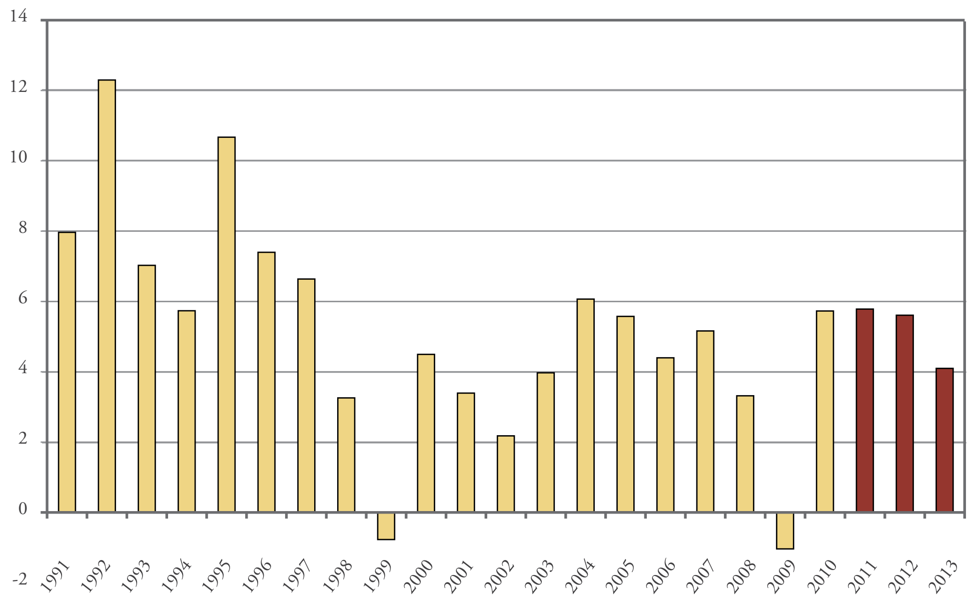


FIGURE 1:

Real GDP growth (1991-2013)

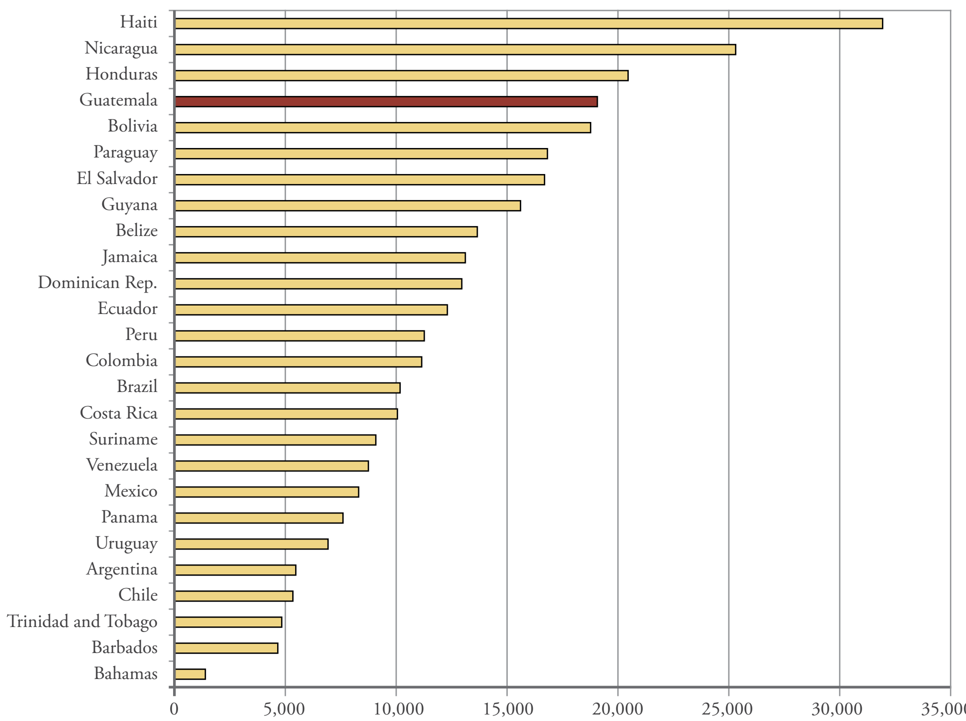
Source: International Monetary Fund (IMF).

In particular, exports became one of the main drivers of the economy. As a result of a trade liberalization policy based on reducing trade tariffs and barriers and executing bilateral free trade agreements, exports rose from an average of 28.6% of GDP in the 1991-2000 period to 37.3% of GDP in the 2001-2012 period. At present, foreign trade[1] constitutes 73% of GDP and the country has 22 trade agreements in effect with 60 countries worldwide. However, despite having one of the most open economies in Latin America and the Caribbean, Chile faces significant challenges, notably including the need to further diversify its exports in terms of products[2] and better manage trade treaties so as to more fully capitalize on the business opportunities they offer. In terms of economic activities, industry represented 27.2% of GDP in 2012, in large part owing to the significant economic role of mining (14.2% of GDP), particularly copper mining (12.7% of GDP).[3]

FIGURE 2:

Per capita GDP, PPP (2013)

Source: International Monetary Fund (IMF).



Economic growth has been primarily driven by factor accumulation, with significant lags in terms of productivity. Between 1992 and 2011, total factor productivity (TFP) grew an average of 1.2% per year, while GDP grew at an average yearly rate of 6.2% (Magendzo and Villena, 2012). The largest contributing factors to GDP growth were investment and increase in hours worked. Moreover, TFP growth stagnated in the first decade of the millennium. This, combined with a lower return on factors of production, and low public and private investment in innovation and technological development, threatens the sustainability of the growth rates experienced to date. Between 2000 and 2008 (prior to the international financial crisis), average TFP growth was 1.4% per year, a low figure if compared to the 1992-1997 period (2.3%) and to the average TFP growth of other emerging economies (Johansson, 2012).

Adding to the above, the electricity sector has in recent years become a critical factor that could limit economic progress. Chile imports a large proportion of its energy resources (70%), particularly fossil fuels, the high prices of which have increased power production costs. In fact, electricity rates are among the highest in Latin America and the Caribbean and exceed the OECD average. The country has had difficulty expanding power production, due to a series of base energy project cancellations and delays because of their environmental and social impacts, as well as growing popular opposition to such projects. In addition, while Chile has significant potential in the form of renewable resources that can be used for electric power production, nonconventional renewable energy (NCRE) has not been sufficiently developed (4% of installed capacity) due to a variety of financial, technical, and legal barriers.

In the fiscal sphere, central government debt has been significantly reduced (Figure 1, Annex I). A major advance was made in fiscal policy in 2000 with the introduction of a structural surplus target. This measure was supplemented in 2006 with the adoption of a Fiscal Responsibility Law that channels fiscal surpluses into two sovereign investment funds: (i) Fondo de Estabilización Económica y Social [Economic and Social Stabilization Fund] (FEES), aimed at financing potential fiscal deficits and amortizing public debt, thus reducing the volatility of fiscal expenditures; and (ii) Fondo de Reserva de Pensiones [Pension Reserve Fund] (FRP), aimed at funding future pension contingencies arising from a changed demographic scenario due to higher life expectancy and an increase in the senior population.[4]

In the social sphere, a strong economic performance and the introduction of specific social policies have led to a significant reduction in poverty rates. However, major challenges remain in terms of inequality. Between 1990 and 2011, the level of poverty declined from 38.4% to 14.4%, while extreme poverty fell from 12.8% to 2.8% (Table 1, Annex I). Nevertheless, Chile has not succeeded in reducing income inequality. Between 1990 and 2011, the GINI coefficient fell from 0.56 to 0.52 but is still one of the highest in Latin America and the Caribbean. In addition, in 2011, the per capita income of the wealthiest 20% of the population was 10.9 times the per capita income of the poorest 20%. This shows moderate progress if compared to 1990 (13 times) (Table 2, Annex I).

The quality of education and structural factors limiting labor market dynamism are major contributors to this inequality. In education, the country has made significant strides in terms of coverage and increased public expenditure. Primary education coverage is 95% and the secondary school graduation rate is 83%. In 2010, expenditure on education reached 6.4% of GDP, in line with the OECD average (6.3%). Yet significant challenges remain in terms of quality of learning. While Chile compares favorably with other countries in the Latin American and Caribbean region, it lags behind OECD countries as evidenced by international standardized test scores. In the case of the labor market, high growth has created historically low unemployment levels.[5] However, labor market participation by some groups, particularly women, continues to be low in comparison with the

OECD and the rest of Latin America and the Caribbean. A rigid labor protection system hinders employment opportunities for unskilled workers in the formal sector of the economy. Moreover, while Chile spends more than the OECD average in labor market integration and training programs, there is ample evidence to suggest that these programs have been plagued by inefficiencies and limited focus and effectiveness.

In the public-sector management sphere, Chile has in the past decade moved forward on its agenda of modernizing the State toward OECD standards. However, the country faces various strategic governance challenges. In the Latin American and Caribbean region, Chile has pioneered the introduction of a series of important institutional reforms (e.g., results-based management, budget evaluation, transparency, civil service, public procurement, e-government) that have translated into greater government transparency and growing citizen participation. However, satisfaction and trust in public institutions and services have waned in recent years in comparison to Chile's OECD partners.[6] Despite being a unitary state, Chile has made inroads in political and administrative decentralization at the municipal and regional levels. Nevertheless, significant problems persist in terms of the institutional capacity of subnational governments. In the area of citizen security, while crime rates are low compared to those of the Latin American and Caribbean region[7] and confidence in the police is high, challenges remain in improving both the long-term consistency of public security policy and coordination among the relevant actors.

The administration of President Sebastián Piñera and his Coalición por el Cambio [Coalition for Change] (a coalition of center-right parties) took office in March 2010 after four successive governments of the Concertación (a coalition of center-left parties). The administration's priority when taking office was the emergency and reconstruction work needed in the aftermath of the earthquake and subsequent tsunami that struck Chile on 27 February 2010. In October 2010, the government submitted its program, the primary objectives of which were to attain developed country status by 2018 (in terms of per capita income), eliminate extreme poverty by 2014, and eradicate poverty by 2018.

The government program identified the loss of economic dynamism in the past decade, primarily due to a drop in economic productivity, as the main obstacle in attaining developed country status. It also identified several dimensions of welfare in which the country lags significantly behind developed countries, such as: years of schooling and quality of education, access and quality of health services, and income distribution. In addition, the government highlighted a problematic situation including a drop in job creation, high unemployment rates affecting the lower-income population, and a low rate of labor market participation by less educated individuals, primarily women. To attain the proposed objectives, the government plan established a work agenda aimed at restoring capacity for growth, increasing productivity, and creating jobs. This plan rested on three fundamental pillars: (i) increased capacity for investment in the economy; (ii) more and better jobs; (iii) enhanced competitiveness.

2

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2 The Bank's Program, 2011-2013

The Bank's importance in Chile in terms of financing has diminished. Sound public finance and greater access to domestic and international capital markets on competitive terms have over the past decade reduced demand for Bank and other multilateral loans (Figure 3). In late 2009, the country's debt to the Bank represented only 5.7% of total public debt and 0.4% of GDP. During the administration of President Piñera, these percentages became even lower, given the policy of issuing bonds to cover funding needs and repaying the country's external debt (Figure 2, Annex I). Thus, by late 2013 the Bank accounted for 1.6% of Chile's public debt and 0.2% of GDP.[8]

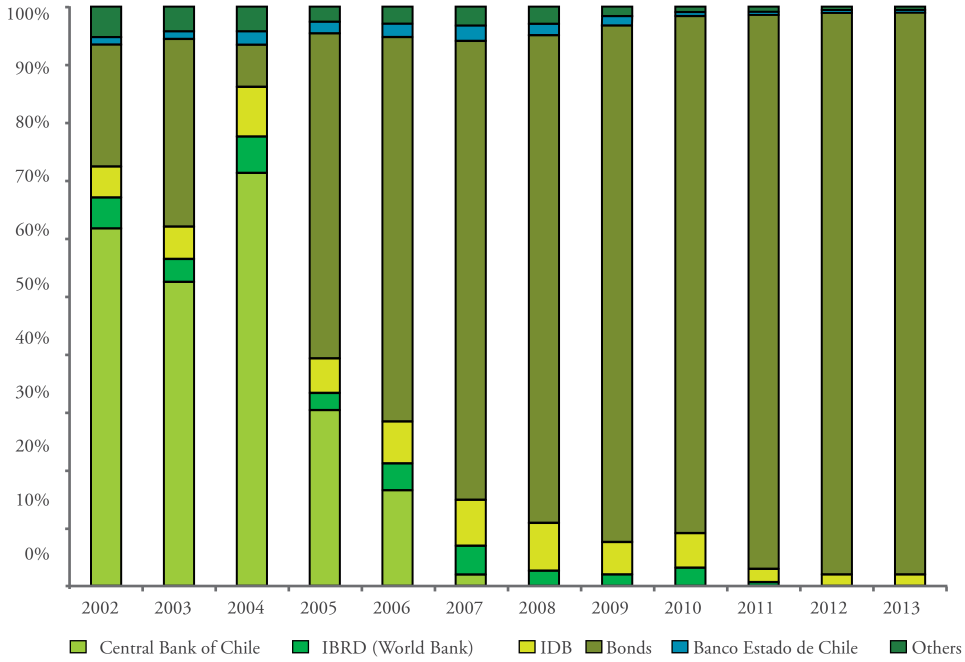


FIGURE 3:

Central government debt structure by creditor

Source: Ministry of Finance, Chile

Figure 4:

Financing cost (IDB vs international financing rate)[9]

Source: Central Bank of Chile, IDB Finance Department, US Department of Treasury

A. Relevance of the country strategy

The current country strategy 2011-2014 was designed against the backdrop of the Bank's difficulty in positioning itself vis-à-vis the incoming government administration. The recent experience with Transantiago (operation CH-L1052),[10] as well as the new administration's focus on emergency and reconstruction work following the earthquake of February 2010, created a difficult setting for dialogue between the Bank and the government. In addition, while the respective financial costs of international bond issuances and IDB loans can be relatively comparable (Figure 4), working with the Bank involves significant transactional timeframes and costs (see Chapter 2, Section B). Consequently, the government has prioritized incurring debt via bond issuances in the international and domestic markets. Moreover, this alternative for incurring debt is consistent with other fiscal policy objectives, such as internationalization of the peso and funding in pesos and *unidades de fomento* or development units (UF)[11] (Figure 3, Annex I). Against this backdrop, between 2010 and 2011 the government canceled (in whole or in part) 11 loans with the Bank for a total of US$326 million (Table 3, Annex I). Most of these loans had been approved months before the new administration took office, and others were performance-driven loans (PDLs) which, while approved before 2010, had encountered significant execution delays (see Chapter 3).

Against this backdrop, the country strategy identified technical assistance as the *"key to its relationship with the country."* The Bank sought to focus its participation primarily on: (a) supporting priority areas as defined in the country strategy through "umbrella programs;"[12] and (b) boosting the transfer of experience from Chile to other countries in the IDB Group. Thus, the Bank aimed to cease operating as a loan provider and become a *knowledge provider* by leveraging technical cooperation grants and selective loans. In particular, technical cooperation operations would focus on identifying loans, pilot programs, and evaluations that could help to: (i) boost economic productivity; (ii) converge toward OECD standards; and (iii) support South-South cooperation. The strategy identified strategic objectives in eight areas (Table 1): (a) labor markets; (b) climate change; (c) transport and road safety; (d) innovation, science, and technology; (e) public sector management; (f) trade and integration; (g) citizen security; (h) financial management and public procurement. In addition, the strategy aimed to deepen the dialogue with the government in the areas of social welfare, indigenous peoples, and education.[13] The primary objective in the selected areas was to *boost economic productivity and contribute to Chile's convergence with OECD standards.* With regard to NSG operations, the strategy identified opportunities in: climate change (renewable energy and energy efficiency); transportation; innovation; science and technology; and trade. In addition, opportunities would be pursued in agroindustry, financial services, and social sectors.

Table 1: The Bank's strategic sector-level objectives (document GN-2642-1)

Area	Strategic objectives
Labor markets	Improve the quality and relevance of publicly funded training programs
	Improve labor market regulatory policy
Climate change	Support implementation of the agenda for climate change adaptation and mitigation at the national level
Transport and road safety	Improve the public transit service in Santiago
	Enhance road safety
Innovation, science, and technology	Foster business innovation
	Stiffen the protection of intellectual property
	Digital development: accessibility and use of information and communication technologies (ICTs) for productivity
Public sector management	Improve management in the central government
	Improve the instruments for fostering productivity
	Improve the business climate
Trade and integration	Promote and diversify the country's range of exports
	Facilitate trade and customs procedures
Citizen security	Enhance citizen security
Financial management and public procurement	Adjust and improve the country's public financial management and public procurement systems for use in Bank-financed operations

While the strategy contemplated a lower estimated SG financing framework than the previous strategy, the Bank nonetheless considered a positive net cash flow scenario for 2011-2014. The 2011-2014 strategy was approved in December 2011, following the process of government cancellation of operations. The strategy posited a preliminary base case scenario of SG loan approvals for a total of US$120 million in 2011-2014, equivalent to an annual average of US$30 million. While this figure is lower than the annual average during the 2006-2010 strategy cycle (US$96 million) and also lower than actual approvals in 2006-2010 (US$106 million), it is nonetheless optimistic in view of the recent scenario of loan cancellations. Meanwhile, (SG) disbursements in 2011-2014 are estimated to reach US$124 million and net capital (SG) flows are expected to be positive as of 2013, totaling US$8.3 million in 2011-2014.

In general, while the strategic objectives (at the general and sector levels) addressed major development problems in Chile and were aligned with government priorities, they were ambitious in view of the Bank's potential role in the country. The strategic objectives were broad and unrealistic (e.g., enhance citizen security, improve the business climate, promote and diversify the range of exports), considering the potential role that the Bank could aspire to play in Chile through a program primarily based on technical assistance and in which the Bank's financial contribution is marginal. Under these circumstances, the program's potential contribution to the attainment of the development objectives would be limited and difficult to attribute to the Bank's support. Moreover, despite the existence of a significant loan and technical cooperation portfolio in important areas such as subnational support or education, the country strategy did not establish strategic objectives in these areas.

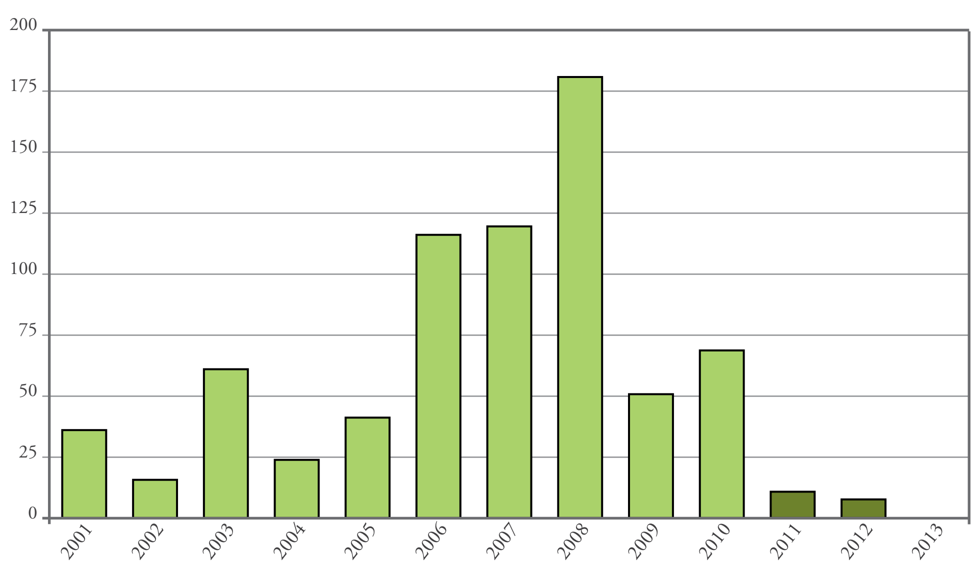
B. Program implementation, 2011-2013

The program was characterized by a lower level of SG approvals than planned, reflecting the Bank's difficulties in establishing areas for collaborating with the government. SG approvals in 2011-2013 were aligned with identified strategic areas and objectives, and consisted of three investment loans for a total of US$17.3 million (Figure 5),[14] a lower amount than under the financial scenarios set forth in the strategy and in the country program documents (CPDs 2011-2013).[15] In June 2011, the Bank approved the Program for Institutional Modernization of the State Defense Council (operation CH-L1060) in the amount of US$2.25 million and a loan (operation CH-L1061) of US$7.56 million in Support for the Establishment of an Integrated Foreign Trade System (SICEX). Meanwhile, the Program to Support SENCE's Effectiveness (CH-L1064), in the amount of US$7.5 million, was approved in 2012. Under this scenario of low approvals[16] and disbursements (US$47 million), net SG capital flows for the 2011-2013 period were negative (US$148 million) (Figure 6).

Figure 5:

Sovereign guaranteed approvals in 2001-2013 (US$ millions)

Source: OVEDA.



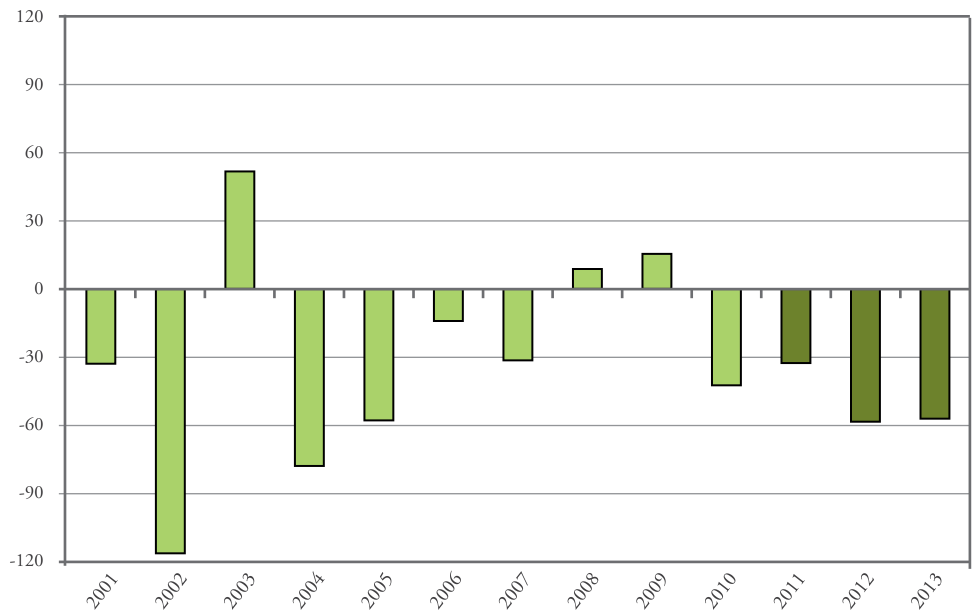


Figure 6:

Sovereign guaranteed capital flows in 2001-2013 (US$ millions)

Source: OVEDA.

In the areas in which the Bank succeeded in approving SG loan operations, the Bank's participation related to specific government needs. Thus, the government identified a specific added value in terms of the products or knowledge that the Bank was able to offer. In the case of SICEX, the Bank became involved early on, supporting the design through a regional technical cooperation operation. The Bank's value added has primarily been its role facilitating the sharing of experiences and best practices with other countries by leveraging its knowledge of the region, its network of contacts with other single windows (Latin America and the Caribbean and Asia), and its experience supporting this type of initiative through loans and technical assistance in other countries in the region. All of these are critical elements with a view to SICEX's future interoperability with windows in other countries.[17] With regard to the loan with SENCE, the Bank's positioning was based on its prior analytical and dialogue work, which showed the Bank's technical ability, professional network, and impartiality, adding value in a difficult area through evidence-based analysis. The Bank became a trusted advisor of the Ministry of Labor and Social Security on issues related to active labor market policies, leading to the subsequent approval of the loan. The bank's ability to show a good cost-benefit ratio for the program (by streamlining the training process) was key for proceeding with the loan. Lastly, in the case of the State Defense Council (CDE), preparations for the loan had already begun during the previous administration, and the factors for approval by the new government included the relatively autonomous nature of the CDE as well as the loan's sound cost- benefit ratio in terms of the government's potential savings in view of the low loan amount.[18]

However, this type of work with the country has been slow and costly for the Bank. With the exception of SICEX, which was a high priority initiative for the government and was led directly by the Ministry of Finance, the approved operations have undergone long periods of preparation and implementation, due in part to the Bank's internal processes and in part to slow government processes (Table 2). While these timeframes may compare favorably with the Bank average, in the Chilean context they are lengthy, considering the country's short political cycle and the fact that Chile can easily and quickly access financing in the domestic and international markets. The best example is the case of the SENCE loan, which took close to 14 months from pipeline to approval and another nine months to signing, attaining eligibility in December 2013, 28 months after the start of its preparation. The extensive implementation timeframes, combined with the small loan amounts and the considerable time taken by staff to respond to specific inquiries from counterparts, also resulted in high costs for the Bank in relation to the approved amounts (Table 2). While some IDB specialists believe that these operations and the possibility of working in Chile offer important lessons and entail potential benefits for the Bank's work in other countries, there is no evidence to show that this knowledge has been absorbed, conveyed, and used on a systematic basis (see Chapter 3).

Table 2: Timeframes and costs of loan preparation and execution

	SICEX (CH-L1061)	SENCE (CH-L1064)	CDE (CH-L1060)	Bank 2011-2013
Timeframes				
From pipeline to approval (months)	4.7	13.7	10.3	10.3
From approval to signing (months)	1.2	8.5	5.3	5.3
From signing to eligibility (months)	4.5	5.5	8.5	8.5
Costs				
Preparation (US$/million approved)	11,728	38,467	69,030	69,030
Execution (US$/million disbursed)	36,175	271,477	214,760	214,760

Notes: The design of SICEX also had financing from a regional technical cooperation operation (RG T1982), an amount not included in the estimates. Calculations are based on the originally approved amounts. For the Bank, simple averages are used for SG investment loans financed with own resources and approved between 2011 and 2013.
Source: OVEDA.

Given the reduced demand for SG financing, the Bank sought to position itself through a more active use of technical cooperation operations and an increase in the private sector portfolio. In the 2011-2013 period, 25 technical cooperation operations were approved for a total of US$12.1 million (especially in 2011). The approved amounts were primarily concentrated in the energy (37%), social investment (23.9%), and modernization of the State (12.1%) areas. In addition, two investment grants were approved for US$5.1 million, bringing the total of nonreimbursable operations to US$17.2 million, an amount similar to the US$17.3 million in SG loan approvals.[19] Disbursements associated with technical cooperation operations totaled US$10.9 million in the 2011-2013 period, a 60% increase with respect to the prior three-year period. Meanwhile, approvals of operations with the private sector (SCF) in the 2011-2013 period totaled US$502.7 million in energy (44%, two loans for US$220.7 million), trade (40%, one TFFP for US$200 million), financial markets (10%, one loan for US$50 million), and agroindustry (6%, one loan for US$32 million). NSG disbursements during the period under evaluation amounted to US$315 million.

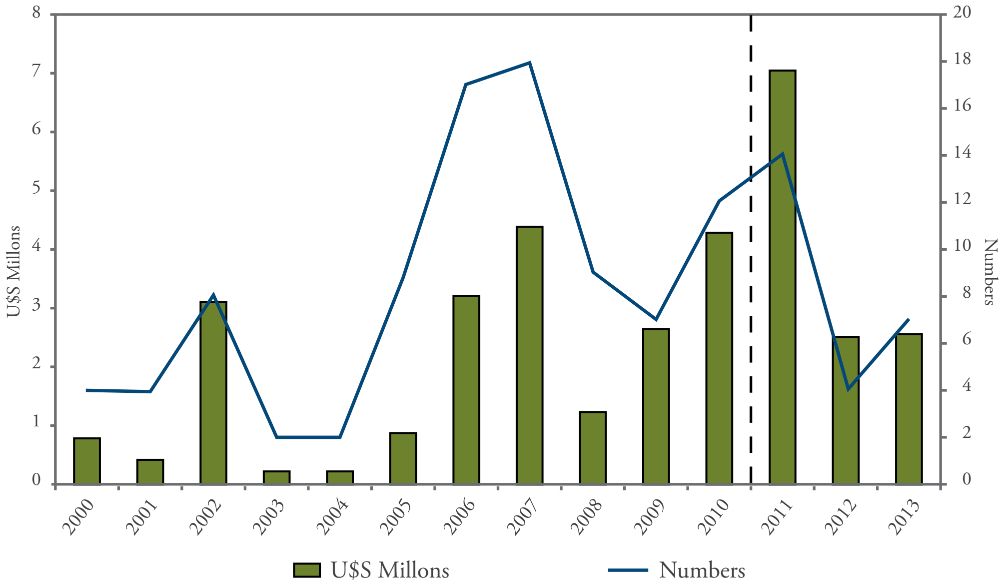


Figure 7:

Technical cooperation approvals 2001-2013

Note: Amounts originally approved as of 31 December, 2013. Figure 8 includes the loan to Transantiago in 2008, subsequently canceled and repaid in 2009.
Source: OVEDA.

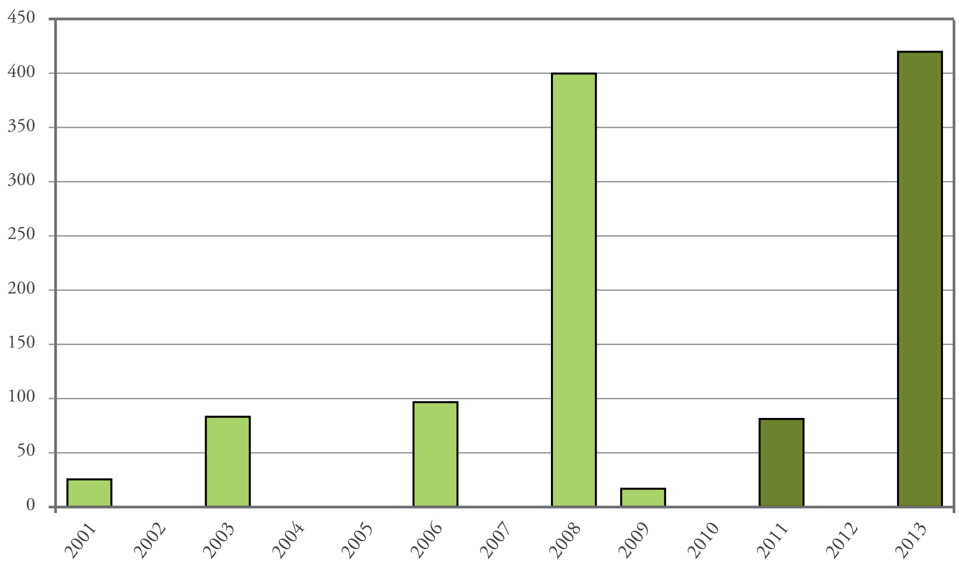


Figure 8:

NSG approvals 2001-2013 (US$ million)[20]

Note: Amounts originally approved as of 31 December, 2013. Figure 8 includes the loan to Transantiago in 2008, subsequently canceled and repaid in 2009.
Source: OVEDA.

Nevertheless, the mechanism of technical assistance through technical cooperation operations has experienced significant limitations. The preparation of technical cooperation operations has also involved significant time spent complying with Bank and government processes, thus limiting the instrument's capacity to respond in a flexible and timely fashion to specific government needs. The technical cooperation operations approved in the 2011-2013 period took an average of 4.2 months to prepare (from pipeline to approval) and another 3.6 months to attain eligibility. Moreover, in practice, the umbrella programs provided under the strategy did not materialize, and only in some cases have technical cooperation operations been strategically used, for example, to support the government's sector agenda (e.g., energy, labor markets) or to strengthen the capacities of certain public institutions, such as Contraloría [Comptroller General's Office]. In May 2012, with a view to organizing the technical cooperation origination and prioritization process, the Budget Office (DIPRES) and the Bank signed a protocol establishing additional procedures for technical cooperation approval. In addition, the budget sets expenditure ceilings for each ministry; consequently, grant resources (including the Bank's technical cooperation operations) do not entail an increase in the budgetary allocation, thus diminishing the incentive to work with the Bank. Given these circumstances, the Bank has come to execute a large portion of technical cooperation operations directly, bearing the concomitant transactional cost. Of the total number of technical cooperation operations approved in the 2011-2013 period, 64% were executed by the Bank (75% in the case of technical cooperation operations in which the beneficiary is a government institution), the exceptions being primarily in the area of modernization of the State (see Chapter 3). On average, a technical cooperation operation executed by the Bank involved more than twice as many disbursements as technical cooperation operations executed by other institutions (4.5 and 2 disbursements, respectively, per US$100,000 disbursed). Between 2011 and 2013, there were a total of 114 WLMS transactions associated with loans and 1,081 transactions associated with technical cooperation operations.[21] In addition, the Bank had to prepare the terms of reference and process the procurement for all activities involved in the technical cooperation operations it managed. In some cases, the Bank even ends up contracting consultants to manage the technical cooperation operations.

In the case of the private sector, the Bank's efforts to expand the Chilean portfolio would suggest that there are pockets of opportunity for the Bank. Worth noting is the Bank's work in the nonconventional renewable energy (NCRE) area, where the Bank has found a significant market niche and can provide financial additionality and potentially act as a catalyst. Financing for this type of project in Chile faces significant constraints. In general, Chilean banks are conservative in terms of taking risks and lending to projects that involve new technologies, such as the case of solar energy projects. The IDB has offered advantages from a financial standpoint with respect to the banks that have ventured into these projects, providing financing in dollars on better terms and under a project finance structure.[22] In addition, the presence in Chile of an SCF investment officer since 2012 has significantly helped to enhance NCRE financing opportunities.[23] The private sector's work in this area has also been characterized by efficient coordination with the Bank's public window (see Climate change, Chapter 3). In other cases, such as the foreign trade operation under the TFFP, the Bank's participation, while significant for the Bank from a financial standpoint, is in response to an isolated opportunity, and its significance in the specific Chilean context is not fully evident.

In general terms, the Bank has not yet succeeded in adapting to the challenge of working with a higher-middle-income country such as Chile. The Bank has yet to find an instrument that can allow it to position itself and respond in timely and cost-effective fashion to the government's needs. During the previous strategy cycle, the Bank emphasized the use of more flexible instruments (PDLs). However, weaknesses in the design of operations prevented a more streamlined execution (see the section on Support at the subnational level, Chapter 3). Since 2000, the Bank has had a fee-for-service agreement in place with the country, but its use to date has been limited, largely due to the availability of grant funds through technical cooperation operations.[24] In the 2011-2013 period, in a context of lower demand for financing, the Bank sought to position itself as a knowledge provider through technical cooperation operations (primarily executed by the Bank) and selective approvals of small loans, yet this strategy has turned out to be slow and costly for the Bank. This situation, combined with the considerable size of the Bank's Country Office,[25] has created a relatively expensive model of work with the country. This model will probably not be sustainable in the group of higher-middle-income countries that have low demand for loans. In a context of lower SG financing, the cost of the program with Chile rose in the 2011-2013 period in comparison to the prior strategy cycle (2006-2010). This increase was largely associated with the significant cost of the technical cooperation program, which in 2011-2013 totaled US$149,000 per US$1 million disbursed, thus exceeding the cost of the SG loan program (US$36,900 per US$1 million disbursed). These amounts understate the actual cost, given the large number of hours not associated with outputs and reported by Bank staff as general activities (e.g., portfolio supervision, fiduciary activities)[26] (Figure 5-7, Annex I).

3

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3 Program Implementation and Effectiveness

This chapter reviews implementation progress and achievements of the Bank's lending and technical cooperation program active between 2011 and 2013 (Table 3). Where the strategy set out objectives, progress towards their achievement is discussed. Although the strategy had set a strategic objective for transportation, the Bank did not approve any new projects in this area, and the two existing NSG guarantees were not triggered during the evaluation period, hence transportation sector performance is not discussed here.

Table 3: Portfolio of Operations 2011-2013

Sector	Strategic objectives	Existing loans and guarantees (Dec. 2010)		New loans and guarantees (2011-2013)		Existing TCs (Dec. 2010)	New CTs (2011-2013)
		SG	NSG	SG	NSG		
Modernization of the State	✓	1	-	1	-	4	4
Citizen Security	✓	-	-	-	-	-	-
Subnational	-	6	-	-	-	-	-
Labor markets	✓	-	-	1	-	1	2
Education	-	-	-	-	-	5	4
Trade and integration	✓	1	-	1	2	-	1
Science and technology	✓	-	-	-	-	1	2
Private sector	-	-	1	-	2	-	1
Climate change	✓	1	-	-	2	6	9
Indigenous peoples	-	1	-	-	-	3	1
Transport	✓	-	2	-	-	-	-

Note: In addition, as of early 2011 there were two water and sanitation technical cooperation operations and another technical cooperation operation for the drafting of a bankruptcy law. All three were canceled. The investment grants in energy are included as technical cooperation operations.

A. Modernization of the State, country systems, and citizen security

The strategic objectives were broad, in contrast to the Bank's limited potential to significantly affect public-sector performance in a country such as Chile. The objectives were to: (i) improve management in the central government; (ii) improve the instruments for fostering productivity; (iii) improve the business climate; (iv) adjust and improve the country's public financial management and public procurement systems for use in Bank-financed operations; and (v) enhance citizen security. The Bank supported these efforts through two loans and nine technical cooperation operations (Table 4, Annex 2). In addition, in December 2011 the Bank's Board of Executive Directors approved advanced use of Chile's country procurement system (Table 1, Annex I).

Unlike in other sectors, government agencies led the execution of technical cooperation operations in most cases. The Bank has acted as the executing agency in two of the nine technical cooperation operations. According to the counterparts, the Bank's support is valued for its public policy continuity and discipline, and in some cases also for providing access to international technical resources. Most of the technical cooperation operations, once they got off the ground, were executed at a good pace and in timely fashion. The presence of reformist leaders within the executing agencies, several of whom have prior experience in Bank operations, has been cited as an important success factor and helps to explain the cases of successful implementation.

The two loans related to the judicial system and the State Defense Council experienced significant delays. The Judicial Reform Support Program (operation CH-L1058) approved in 2010 in the amount of US$5.125 million suffered from a lack of leadership and turnover in the institution, in addition to an ambitious design scope in terms of timeframes and areas targeted for reform. Disbursements have barely been made under the loan. The Program for Institutional Modernization of the State Defense Council (operation CH-L1060), approved in 2011 in the amount of US$2.25 million, had a slow start, changes in leadership, a late first disbursement, and the need to incorporate a change management component in order to mitigate internal resistance, but is now being implemented at a better pace.

The technical cooperation program supporting the Comptroller General's Office followed a prior loan and had great internal leadership. The first technical cooperation operation supported a broad set of internal reforms. Significant inroads were made in the external control, legal, management of proceedings, internal management control, training, information systems, citizen participation, and external communication areas. The technical cooperation operation made it possible to close institutional gaps that had been left unresolved in the loan approved in 2002, making it hard to execute. The second technical cooperation operation, currently close to completion, consolidated a system of information sharing between the Comptroller General's Office, CDE, and the Prosecutor's Office. The system is operational, although according to the counterparts, the amount of shared information is limited due to confidentiality regulations affecting CDE and the Prosecutor's Office. The citizen portal is available and has logged 5,521 visits and 3,143 citizen complaints in the first six months. The technical cooperation operation supports some commitments assumed by Chile under the Open Government Partnership on issues of transparency and accountability.

In the civil service area, a technical cooperation operation provided technical inputs for improving the senior public management (SPM) system but only partially achieved its expected outcomes. The inputs were delivered in the form of proposals to the National Civil Service Bureau aimed at improving the development of performance monitoring and evaluation practices and tools. The technical cooperation operation also served to launch the process of updating the SPM civil service system (underway), which is a strategic government objective. However, achievement of the technical cooperation operation's expected outcomes was partial, since the universe of senior officials covered by the system was reduced.[27] The technical tools and proposals served to inform the legislative bill, but the project's general objectives turned out to be too ambitious and long-term in view of the approved action plan, which did not include support for implementation[28] or active involvement by other important actors in the area of reforms.

A technical cooperation operation to support the implementation of several reforms was executed by the Bank and only partially achieved its expected outcomes. The technical cooperation operation was designed to support the government in preparing technical inputs for four areas of reform: creating an independent evaluation agency; strengthening the National Investment System; establishing an ex ante evaluation methodology for social programs for the Ministry of Social Development; and providing additional support for improvement of the SPM system. With regard to outcomes, only the inputs for the Ministry of Social Development and the SPM system have been fully and significantly used in reforming the internal processes. In the case of creating an evaluation agency, the technical cooperation operation's output was not in line with the Piñera administration's expectations and was therefore not used for the legislative bill sent to Congress at the end of the presidential term. Lastly, the output that suggested reforms to the National Investment System arrived when the reform process was already underway and was used only as ancillary technical support. One of the areas of reform (fiscal policy) was ultimately not considered.

In the area of citizen security, the New York model of shared use of criminal data among the responsible institutions was replicated along with the use of evidence in police and preventive tactics. While the information sharing system is more basic than the New York model, it makes it possible to create information and use it for a regular updating of key points of police and social prevention tactics. Moreover, the system succeeded in initiating cooperation between State security entities for the first time on an active and regular basis. The government has pointed to declines in crime rates related to this system's implementation; thus, the rate of crimes in the home has gone from 33.6% to 24% in the 2010-2013 period. However, it is too soon to observe an impact and difficult to attribute causes with the methodology employed. An impact evaluation of the system has recently been commissioned by the Bank.

In conclusion, although the Bank's contribution to the broad sector objectives has been limited by the support instruments and low amounts involved, most of the completed operations have helped to build the capacities of participating public agencies in specific areas. The Bank has also tried to provide technical inputs to inform legislative bills for institutional reform. While the technical outputs were appreciated by the government and used in part to contribute to its legislative bills, the final outcome of such support is uncertain and in several cases has not translated into approved reforms at the end of the legislative session.

B. Support at the subnational level

Although the strategy did not set objectives in this area, the existing portfolio contained six operations providing support at the subnational level which had been approved between 2005 and 2008, but had made limited progress by early 2011.[29] The oldest of these operations was a loan to support urban development in Valparaiso. The loan had been approved in 2005, but over half remained to be disbursed at the beginning of 2011. A second operation, Program of Regional Productive Development Agencies (operation CH-L1019), approved in 2006, also experienced delays and had a remaining balance of 22% to be disbursed. Four operations (CH-L1018, CH-L1025, CH-1026, and CH-1032) had been approved within the framework of a US$400 million conditional credit line for investment projects (CCLIP) to support decentralization and regional development. Each of the four CCLIP operations was designed as a performance-driven loan (PDL) with disbursements to occur against achievement of agreed upon results and verification of incurred related expenditures.[30]

All four CCLIP PDLs suffered from significant design shortfalls, resulting in unrealistic results targets that prevented timely disbursements. In addition, the lack of operating guidelines hindered the use of this instrument. As a result of unrealistic targets on which disbursements were conditioned, the CCLIP program was delayed for several years with essentially no disbursements beyond the initial advances. This meant that by the beginning of 2011, 79% of the US$330 million for the CCLIP operations remained undisbursed.[31] While the Bank undertook efforts to restructure the program, prospects for 2011 disbursements under most of the operations remained unlikely. As a result the government requested partial cancellations amounting to US$186.5 million from three of the four PDLs in 2011 and repaid the US$20 million advance to the Solid Waste Management PDL in 2012 (see Table 4, Annex I).

The program to support subnational governments was the first of the four CCLIP operations and aimed to strengthen capacity of regional governments to assume increased leadership in local development. The program was initially focused on helping subnational governments develop capacity to effectively plan, budget, and manage funds transferred to them for regional development. After the change in government, US$26.5 million were cancelled, and the focus of the program moved away from investment planning and participatory budgeting, to emphasize creation of regional identity and innovation. The revised results matrix was largely focused on preparation of plans and policy proposals, with little attention to implementation. All regions established a planning office and developed management improvement plans. Expenditure data suggest that as of mid-2013 seven regions had started implementing them. Each region also adopted at least one regional policy,[32] but their implementation status is uneven. All also developed plans to strengthen regional identity, and some also developed regional innovation plans. At the national level, some inputs were prepared for the 2013 reform, which allowed Chile's first direct election of regional council members. In addition, a management certification system was developed for regional governments based on externally reviewed self-evaluations and improvement plans were introduced. To what extent these initiatives have actually helped strengthen subnational management capacity remains unclear.[33]

The rural water and sanitation PDL was to help cofinance an existing SUBDERE program, but design shortfalls resulted in cancellation of most of the loan. The program aimed to reduce the coverage gap of water and sanitation connections and establish water treatment facilities in rural areas in a cost-effective and sustainable manner. In 2011 the loan contract was amended to also allow for repair and reconstruction of earthquake-damaged water and sanitation facilities and revisit connection targets. Design had not taken into account that SUBDERE was merely a conduit for financing, and that local governments needed to manage identification, design, procurement, and construction of the infrastructure. Limited local capacity led to delays which in turn prevented meeting connection targets for disbursements. Furthermore, SUBDERE had no way to enforce the connection unit costs agreed upon with the Bank, as approval of projects proposed by local governments went through the Ministry of Social Development rather than SUBDERE. Consequently, a substantial share of implemented projects[34] exceeded the unit cost targets and was thus not eligible for reimbursement from the loan proceeds. In mid-2011, when it became clear that SUBDERE would not be able to meet sanitation targets with the available budget, thus preventing any disbursements in that year, the government requested cancellation of the remaining loan balance.

Although the integrated solid waste management PDL was cancelled, it contributed to the establishment of a new SUBDERE program to help municipalities comply with more stringent environmental regulations through integrated and sustainable solid waste management. Design had not sufficiently recognized that local governments, which were to implement solid waste management systems, did not have the technical and managerial capacity to identify, plan, design, and establish such systems, and the Bank had significantly underestimated how long it would take to put such facilities in place. It had also overestimated local governments' capacity to impose fines on waste treatment facilities that didn't meet required standards. As of January 2014 (four years after the planned disbursement of the first tranche), five such projects were nearing completion. Given the inability to meet disbursement targets, the government requested cancellation of the remaining loan balance and repaid the initially disbursed advance. While the operation thus failed to meet its objectives, it did have a lasting impact by helping introduce the program, which is now funded from budgetary resources, and by establishing some capacity to plan, appraise, and implement solid waste management facilities.

The historical monuments preservation program successfully introduced the concept of *patrimonio* into public policy with a dedicated budget line for SUBDERE. Results targets failed to recognize that it takes several years to identify, design, bid for, and renovate historical buildings, particularly in an environment where capacity to undertake such work is nascent. Consequently, unrealistically set results targets have delayed disbursements, even though work under the program has progressed well. All 15 regions in Chile developed multiyear restoration and preservation plans. Designs for 77 projects were approved, financing has been approved for 68 preservation projects and 30 have been completed. Financial participation by subnational governments grew from 9% in 2009 to 21% in 2013. While the program helped establish and train a corps of professionals in the national and regional governments to handle appraisal, design and management of preservation projects, an external evaluation[35] found that capacity to manage and supervise project execution remained limited at local level. The project also led to some increased private sector capacity to carry out such restoration and maintenance work. Support was provided to help set up management structures for restored facilities, but management arrangements for a considerable share of restored properties remain fragile, raising the question to what extent they can sustainably be maintained over the long term.[36] Although the program's overarching objective was to restore historical monuments to help spur socioeconomic development, there is little evidence that restorations have led to increased economic activity as of yet.[37]

The Regional Productive Development Agencies Program (ARDP) aimed to strengthen regional capacity to foster productivity in a coordinated fashion, but failed to have a sustainable impact due to changes in government policy. Program design underestimated the time and resources needed to introduce a unified model in each region (installation of ARDPs, development of competitiveness agendas and programs to improve competitiveness (PMC), and identification of clusters). Once this institutional framework was established, it was decided to turn the ARDPs into nonprofit regional productive development corporations (CRDPs). With the change in government came a decision to end the cluster-based model and cease financial support to CRDPs from the central government. As a result, upon completion of the Bank's support, CRDPs became entirely financially dependent on regional governments. A recent study by the Bank found that only 10 of the 15 originally created ARDPs had in fact been converted into CRDPs, and of these, only three were active at the strategic level in fostering productivity. Furthermore, there is no evidence that the surviving CRDPs continue with the implementation of PMCs and maintain their focus on previously identified economic priority sectors.

The Valparaiso Urban Development Project which sought to reclaim selected territorial areas to stimulate productive private investment and to strengthen management of urban development had mixed results. An unsuitable institutional set-up, zoning and regulatory issues, and the need to coordinate across a number of agencies resulted in implementation delays, dispersion of initiatives, and unrealistic expectations among the population during the project's first few years. After an interim evaluation, the institutional framework was revised, the project was refocused and implementation picked up in 2010-2012, but the project did not meet its originally foreseen targets. It is credited by policy-makers at the national and local levels with introducing the concept of recovering and managing cultural heritage. It helped recover and rehabilitate 18 public spaces, six landmark buildings, and over 1,900 private buildings. It made some inroads in waste management and pest control, trained community leaders, and helped develop and implement a tourism development plan. City tourism revenues increased by almost 50% between 2006 and 2012, but clear attribution to the project is not possible. While 70% of inhabitants and tourists surveyed at project completion had a favorable impression of the recovery and rehabilitation of urban heritage in the city, focus group discussions and interviews undertaken as part of the final evaluation showed a less positive attitude among citizens.

Overall, while the subnational portfolio did not substantially contribute to the overarching goals set out in the strategy, and the majority of operations fell short of meeting their objectives, it did help introduce the concept of cultural heritage in public policy and establish a solid waste management program. It also initiated a process of strengthening planning and management capacity of local governments, although much remains to be done. Lastly, it brought to bear important lessons about the design of performance-driven operations, in particular that such operations require careful assessment of the institutional and regulatory environment in which they are to operate so that results targets are in line with local reality. It is also advisable for the Bank to issue operating guidelines when introducing new instruments.

C. Labor market

The strategic objectives in this area were to improve the quality and relevance of publicly funded training programs and improve labor market regulatory policy. A loan in the amount of US$7.5million (operation CH-L1064) to strengthen SENCE's steering and regulatory capacity on labor market intermediation and training, improve the relevance and quality of training programs, and strengthen SENCE's administrative capacity was approved in 2012. A technical cooperation operation aimed to support the Ministry of Labor and Social Affairs with the design and evaluation of training and labor insertion policies. Another technical cooperation operation focused on supporting the capacity of the Servicio Nacional de la Mujer (SERNAM) to design and implement programs that promote higher labor market participation of women.

Although the SENCE loan and the technical cooperation operation experienced eligibility delays, some initial activities have been completed. The SENCE support loan only achieved eligibility in December 2013, 28 months after it entered the pipeline, while the technical cooperation operation started to disburse in January 2013, 15 months after its approval (see Chapter 2). SENCE started implementing some of the activities during 2013 with its own resources, but implementation has lagged behind the originally foreseen schedule for various reasons, including limited capacity of the implementing agency, reluctance to policy changes and procurement delays linked to this being the first Bank project to make advanced use of country systems. Nevertheless, some inroads have been made. An initial review of seven SENCE programs was completed leading to specific recommendations on how to improve their functioning, design, and monitoring, some of which SENCE has started implementing. A study on costs of training courses was completed and served to inform budget formulation. Within SENCE, a strategic development unit has been established and a balanced scorecard system has been introduced to support more results-focused management. Work is ongoing to establish a unified information management system. Technical cooperation funds have so far been used to complement Bank staff resources to undertake analysis of several government initiatives, leading to changes in some of them.[38] A Bank-developed skills gap assessment tool to help inform training needs was piloted as part of a subregional initiative by the Bank.

The technical cooperation operation supporting SERNAM developed and introduced a norm and enterprise certification program for gender equality in the workplace. What effect this program will have on female labor market participation and gender equality in the workplace remains to be seen. To date, 17 enterprises are reported to have initiated the certification process. The technical cooperation operation also supported SERNAM's evaluation of a government initiative to support women's labor market insertion through the provision of after-school care ("Programa 4-7").

Overall, the Bank-supported program is not yet advanced enough to have a discernable impact on the quality and relevance of publicly funded training programs, or on other labor market policies. On the knowledge generation front, the Bank has helped generate the evidence base to address the shortcomings of some initiatives. The SENCE program has helped set in motion initial steps that have the potential to improve governance and management of SENCE programs. The bulk of the work to achieve the proposed objectives remains to be done, however.

D. Education

Given the cancellation in 2010 of two small loans,[39] the country strategy did not establish any strategic objectives for the education sector, but it foresaw that the Bank would deepen its dialogue with the government, particularly on teacher training and quality of education with a view to subsequent lending. Over the evaluation period, the Bank's program in the sector consisted of nine technical cooperation operations, which disbursed a total of US$2.2 million between 2011 and 2013 (Annex II). The main beneficiaries and counterparts for over half of the technical cooperation operations were local nongovernmental organizations engaged in various initiatives to either bring education or vocational training to vulnerable groups or that sought innovative ways to bring motivated teachers to the classroom. The Ministry of Education was only the direct counterpart for two technical cooperation operations, suggesting that the Bank struggled to engage with the Ministry during this time.[40]

Technical cooperation operations with NGOs delivered most of the expected outputs but the Bank's engagement was limited to one-off support and did not result in any models or information that impacted government policy or teaching and learning on a larger scale. Some technical cooperation operations developed new concepts and materials to introduce a new model into classrooms or expand their existing model to additional grades, but in most cases the interventions received little if any follow-up in schools where they had been introduced after Bank support ended. One worked on innovative models to introduce more motivated and highly performing students to the teaching profession. While some of the NGOs successfully leveraged IDB funding to attract funding from other sources, sustainability of interventions and ability to scale up were considerable concerns (Annex II).

Neither of the technical cooperation operations in support of the Ministry of Education succeeded in deepening the sector dialogue, as their relevance and ownership by the Ministry of Education waned over time. One technical cooperation operation helped formulate the sector's emergency response to the earthquake by transferring some knowledge from the leaders of the New Orleans school reconstruction, but the technical cooperation operation became of less interest and relevance to the Ministry of Education once it turned out that the majority of schools affected by the earthquake did not need full reconstruction. The technical cooperation operation produced new building standards and a school optimization model, but OVE found no evidence that these tools are currently being used by the Ministry. A second technical cooperation operation was to help build on the New Orleans model to develop a program for low-performing schools in Chile in conjunction with a reimbursable technical-cooperation operation. However, the loan never materialized and as a result, the support from the New Orleans team was curtailed. The operation did provide some inputs for the development of the government's "Programa de Apoyo Compartido" which was to be implemented in 2,000 low-performing schools. However, the government decided to halt expansion of the program after it had been introduced in the first 1,000 schools. The Bank used the remaining funds to undertake a classroom observation-based evaluation, but interest by the Ministry in the latter was limited. The Bank had viewed this technical cooperation operation as an opportunity to test the New Orleans model in the Latin American and Caribbean context and to draw lessons on how to use the model more broadly in the region. The curtailing of the partnership with the New Orleans team and the limited implementation of the PAC foiled this attempt.

The Bank tried to leverage most of the education technical cooperation operations to generate some knowledge by integrating evaluations. In some, data issues prevented getting to conclusive evidence on results and impact of the supported initiative, but in others the supported experiment helped shed some light on the effectiveness of the intervention, and the Bank disseminated the findings to stakeholders beyond Chile through briefing notes or articles. Under the most recently approved technical cooperation operation, the Bank is helping to undertake an analysis of the status of preschool education in Chile, as well as analytical work on quality control and financing in education with a view of using the work to engage in a dialogue with the new government on education reforms. Overall, while the Bank's engagement in the sector helped generate some knowledge, there is no evidence that this knowledge was used by education policy-makers in Chile during the evaluation period, or that it made a significant contribution towards deepening the Bank's dialogue with the government on key issues afflicting the education sector.

E. Trade and integration

The strategy established two broad objectives in this area: to promote and diversify the country's range of exports and facilitate trade and customs procedures. In addition, one of the general objectives of the strategy was to support South-South cooperation. These objectives, while aligned with priority problems in the area and with government priorities, were broad in relation to the Bank's potential role in the sector and the program actually implemented. In trade facilitation, the Bank approved a loan (operation CH-L1061) for US$7.5 million in 2011 to support the establishment of an Integrated Foreign Trade System (SICEX), a single-window system aimed at streamlining and facilitating trade flows by grouping together all procedures and documents required to export goods and services in a single window. In November 2013, the Bank approved an NSG loan under the TFFP for US$200 million with Banco Santander Chile. With regard to South-South cooperation, in June 2013 the Bank approved a technical cooperation operation to strengthen Chile's Agencia de Cooperación Internacional [International Cooperation Agency] (AGCI) for the execution of South-South and triangular cooperation. This technical cooperation operation is framed within the mutual cooperation agreement between AGCI and the IDB (2012), which seeks to promote cooperation projects in IDB borrowing member countries as well as strengthen the capacities of AGCI and other Chilean public agencies to execute cooperation activities.[41]

In general, the operations have been implemented according to plan. However, since most of them are still in execution, determining progress toward the attainment of their objectives is not yet possible. As of December 2013, the loan for SICEX was 54% disbursed. While there have been delays with respect to the original timeframes, this situation has been largely due to an ambitious government plan which set the goal of completing the system's implementation during the administration's term in office. The key factors for progress on implementation include a political commitment at the highest level, leadership of the initiative on the part of the Ministry of Finance, which has great mobilizing capacity, and simultaneous strengthening of the systems in the relevant institutions. With regard to the system's implementation, the export module was completed and publicly launched in January 2014, but work remains to be done to make it fully operational. The other system modules (imports and transit of goods) are being developed in parallel. In addition, targeted activities aimed at private-sector awareness and system user training are being carried out as a prelude to a more massive dissemination and training process to be implemented in 2014. The other operations have only recently been approved or are starting to be executed; consequently, it is not yet possible to analyze their outcomes.

From the standpoint of knowledge, strides have been made toward the strategy's general objective of *generating knowledge,* aimed in this case at overcoming key constraints in the area of foreign trade and integration. The design and implementation of SICEX has enabled the sharing of experiences and good practices with other countries in the region and in Asia with a view to their interoperability. Similarly, the knowledge derived from the Bank's work experience with Chile has been shared with other countries in the region in seminars and various cooperation venues.[42]

F. Science and technology

The strategic objectives to foster business innovation, improve protection of intellectual property, and increase small and medium-sized enterprises' use of ICT to enhance productivity were too ambitious relative to the implemented program. The program consisted of a technical cooperation operation to strengthen specific aspects of Chile's intellectual property system and completion of an existing technical cooperation operation with the Catholic University to explore options for establishing a science and technology park that would link university-based research and development with business partners. The Bank successfully helped INAPI modernize and strengthen its performance, demonstrating that it can add significant value with limited financial resources in specific areas when it has the in-house technical capacity to address a specific client need. The technical cooperation operation enjoyed strong ownership and helped INAPI digitize a backlog of 10,000 patents, develop a strategic plan, and benchmark its performance against international comparators. It also helped undertake a review of the business processes and organizational structure of its trademarks subdirectorate, resulting in reorganization and modernization of its work processes.

Regional workshops were delivered for business, trade, and academic representatives on intellectual property rights and on web-based information search and application for patents and trademarks. These efforts led to a substantial increase in INAPI website visits and online applications and a 3.5 months reduction in registered trademark processing times. The other technical cooperation operation did not result in viable options for a science and technology park, although it did provide inputs for the university's medium-term investment plan to promote innovation and technology.

G. Private sector

The Bank's program included two NSG operations in financial markets, which have taken longer than estimated to implement. In 2009, OMJ approved a US$10 million partial credit guarantee (operation CH-L1054) to support a new microfinance business unit within the beneficiary bank. From the client's perspective, the added value of working with the Bank derives primarily from having the support of the IDB brand to promote this line of business within the internal bank structure, as well as from the possibility of having a financial instrument better suited to the client's needs (market segment) than those available in the national market. The contract was signed in 2013, and the first coverage under the guarantee for the loan portfolio closed at year-end 2013 was activated in January 2014.[43] In 2011, SCF approved a loan (operation CH-L1065, US$50 million) with another bank to provide financing for social sectors (education and health) as well as for renewable energy, energy efficiency, and clean production projects (Green Credit Lines). The beneficiary bank is one of the most active lenders to renewable energy projects; consequently, the value added has primarily derived from the bank's access to the U.S. dollar financing needed for this type of project and the incorporation of environmental criteria and standards into the loan approval cycle. While the beneficiary bank has a significant renewable energy portfolio, four projects had been financed under the line by year-end 2013 (three in health and one in renewable energy). The line's underutilization is primarily due to the transactional costs associated with its use (project eligibility criteria, environmental and social safeguards).

The Bank also provided financing and technical assistance to one of the country's major agricultural export companies. The loan for US$32 million was aimed at supporting the company's 2011-2014 investment plan and refinancing debt with local banks. The plan provided for construction of a solar energy plant to supply the company's irrigation systems, based on feasibility studies conducted under a technical cooperation operation. While the plan has undergone some modifications, it is expected to be completed in 2014. The financial additionality is related to the absence of financial products on the national market that could meet the financing needs of the investment plan.[44] Noteworthy in terms of nonfinancial additionality is the technical assistance provided with a view to introducing energy efficiency measures and management standards. More recently, in the framework of the shared value initiative, the Bank has financed consulting assignments aimed at identifying investments to improve the conditions of families taking part in harvesting work.

H. Climate change

In this area, the strategy set the objective of supporting implementation of the climate change and adaptation agenda at the national level and called for Bank support, primarily in energy. The Bank portfolio supported these efforts through a combination of NSG loans, technical cooperation operations, and investment grants. In energy, operations covered four areas: (i) nonconventional renewable energy (NCRE) (solar and marine); (ii) traditional renewable energy (hydroelectric power production); (iii) energy efficiency; and (iv) rural electrification (Annex II). In addition, the Bank approved technical cooperation operations for natural disaster risk management, glacier conservation, and environmental impacts of biofuels (Annex II).

The Bank approved a series of operations aimed at supporting the government's efforts to promote NCRE use, positioning itself as a major strategic partner of the recently created Ministry of Energy. In 2011, the Bank supported the Ministry in the design of an investment plan to obtain concessional financing from the Clean Technology Fund (CTF). This plan was approved in 2012 (Annex II). In parallel, the Bank approved a series of technical cooperation operations for the Ministry with a view to supporting the development of large-scale solar projects in the north of Chile, the development of solar technologies, and preparation of a component of the CTF – RSSEE investment plan. In the case of marine energy, operation CH-G1002 (US$2.4 million) seeks to supplement government capital subsidies (US$13.4 million) to support the implementation of two pilot projects in the country's south, the first of their kind in Latin America and the Caribbean. Technical evaluation of the bids and implementation of the pilots will be supported through another technical cooperation operation. In this regard, the Bank has supported the government's efforts through a strategy focused on scaling installed capacity in the case of technologies available on a commercial scale (solar), reducing pre-investment costs (solar concentration, CTF), and supporting the introduction of emerging technologies still in the pre-commercialization phase by means of pilots (marine).

The Bank's NCRE program has been characterized by good coordination between its public and private windows. Coordination has taken place primarily in the context of the CTF investment plan, with both Bank windows participating in the plan's design and implementation. Since the electricity sector in Chile is fully controlled by private-sector entities, technical cooperation operations with the Ministry of

Energy are primarily aimed at lowering the barriers faced by NCRE projects and identifying portfolio projects that can subsequently be financed directly by private firms or by the Bank's private sector jointly with other lines of credit that the Bank is able to mobilize (e.g., CTF). From the government's perspective, the advantage of having both windows, the knowledge of private-fund (e.g., CTF) management, and the presence in Chile of SCF staff have been significant factors when working with the Bank during the period. In 2012, SCF approved an initial operation (CH-L1069) for US$41.4 million to build, operate, and maintain three photovoltaic solar energy plants in the desert of Atacama with a total capacity of 26.5 MWp, the first such commercial-scale plants in the country.

Most of the operations were approved in 2012-13 and are consequently now starting to be executed. With regard to the CTF investment plan, a contract was awarded under an international call for bids for construction of the first concentrated solar power plant (Component I) in Latin America and the Caribbean, with a capacity of 110 MW.[45] The consulting project to review the bidding terms was supported by a technical cooperation operation that also financed a study to identify a solar project portfolio and other prefeasibility studies on solar technology applications in mining industry processes, all aimed at identifying projects that can be financed by companies in the sector. With regard to the photovoltaic project in Atacama (operation CH-L1069), one plant (1.2 MW) is already in operation and the other two (8.1 and 17.3 MWp) are expected to become operational in March 2014. In marine energy, the Bank provided technical support for the recent drafting of the bidding terms for the pilots and participated in the international promotion of the competitive bidding process.

The Bank took on an important role in preparing and financing the Alto Maipo hydroelectric power project. In late 2013, the Bank approved an NSG loan of US$200 million to support the design, construction, operation, and maintenance of a project consisting of two run-of-river hydroelectric plants with a total capacity of 531 MW and a cost of US$2.050 billion. The project is of great importance for Chile's energy matrix in view of the country's recent difficulties in expanding power generation (see Chapter I). In financial terms, participation by the IDB, IFC, and OPIC has made it possible to mobilize private sector bank financing and in turn structure a long-term lending package of US$1.217 billion (of limited availability for this type of project) that made the project financially viable.[46] In terms of environmental and social standards, the due diligence process lasted almost two years. In addition to the initially planned studies, other studies not initially identified (e.g., environmental flows) were included, as well as additional consultations with the community to address stakeholder concerns. Alto Maipo has faced strong opposition from population groups and has been subject to legal actions aimed at revoking its environmental construction permits. To date, these actions have not been successful. Given the project's high visibility, these problems will certainly intensify during construction. Consequently, the Bank has developed a communications plan, which is being implemented under the leadership of the Bank's Country Office in Chile.

The program also included operations aimed at supporting the implementation of energy efficiency measures at the sector level. The Bank approved two GEF operations to support Agencia Chilena de Eficiencia Energética [Chilean Energy Efficiency Agency] (AChEE): operation CH-X1002, which seeks to promote energy efficiency in the industrial and commercial sectors; and operation CH-X1009, which aims to reduce the financial obstacles faced by engineering and energy service companies (ESCOs) in implementing energy efficiency projects. While these operations have been significant in addressing the needs and priorities of the sector, the Bank's positioning and technical value added have been low in comparison to the Bank's work in NCRE. AChEE has high technical capacity in the energy efficiency area. However, it would have benefitted from a more active IDB role in knowledge transfer, drawing on the Bank's experience in other countries, for example, in financing arrangements for energy efficiency projects. This is in contrast with the Bank's recent work with the Ministry of Energy in energy efficiency at the residential and municipal levels, where the technical cooperation design included the sharing of experiences and an analysis of international cases with a view to implementing financial instruments for energy efficiency in housing. The only operation (CH-X1009) that was fully disbursed (2013) financed the creation of an energy efficiency guarantee fund ("FOGAEE") in the amount of US$2.15 million, to guarantee energy savings associated with loans provided to ESCOs for energy efficiency projects based on energy performance contracts.

In general, while the program was structured to address the strategy's sector objective and general objectives, measuring its contribution is not yet possible since most of the operations are in execution. Nevertheless, the program has been significant in addressing government priorities in the Bank's various work areas. The Bank was able to position itself to support the government agenda. In particular, the Bank's private sector found a market niche where it can provide financial additionality and potentially act as a catalyst (NCRE) as well as contribute nonfinancial additionality in terms of environmental and social standards in complex projects (hydropower). The program has been characterized by good complementarity between technical cooperation operations and loans and effective coordination between the public and private windows, especially in NCRE. However, progress in the program and the use of outputs obtained to date (particularly in NCRE), will depend on the interest of private-sector companies in carrying out these initiatives, on political support during the next government administration, and in other cases on the Bank's ability to mobilize resources expeditiously (e.g., CTF).

I. Indigenous peoples

Despite its existing lending and technical cooperation portfolio in support of indigenous peoples, the strategy did not establish any strategic objectives in this area. Instead it proposed deepening its dialogue with the government. The Bank's portfolio consisted of one loan and four technical cooperation operations (Box 1), of which all but one had been approved prior to 2011. Some of the technical cooperation operations lost focus over time and became costly and cumbersome for the Bank to administer, especially as they lost clear champions in the government and became increasingly centered on small individual consulting projects contracted and managed by the Bank.

Programa Orígenes, Phase II, Integral Development Program for Indigenous Peoples was affected by design and implementation problems impacting achievement of some of its results. The loan (operation CH-L1014), approved in 2006 and completed in 2012, supported two subprograms: (i) Integral development of indigenous communities and (ii) Culturally pertinent public services. Because the operation had been initiated before the first phase was evaluated, the second phase was unable to fully integrate lessons arising from the first phase. The project lacked a transparent monitoring and evaluation system, resulting in a situation where transfers made to communities for implementation of locally identified development plans could not consistently be accounted for. To remedy this shortcoming, the Bank approved a technical cooperation operation to design and introduce a credible monitoring and evaluation system, collect baseline information and undertake various formative and final evaluations. However, the technical cooperation operation only reached eligibility three years after approval and the monitoring system only became fully functional in 2011, in time to close out the project and support the final evaluation. It helped reconcile records and account for 99% of the US$130 million program costs, putting to rest prior allegations of misuse of funds.[47]

The program helped introduce participatory methods to identify and plan local development projects, but implementation of the model faced difficulties due to the quality of consultants hired to help communities develop local development plans and a perception that transfers made to implement such plans were a right of potential beneficiaries rather than a reward for successful project planning. Resulting projects were overly focused on tourism and fewer productive associations were created than originally planned. While the operation fell short of meeting its targets, some results were obtained. Between 2007 and 2012, 1,183 communities were served, reaching a total of 35,343 families. Fifty-four percent of surveyed communities indicated that they had seen an improvement in their quality of life (against a target 70%), though data issues do not allow for clear attribution to the program. Programs to make education and health services more culturally attuned to needs of indigenous communities were expanded and a survey of beneficiaries found that 55% of families believed services for indigenous people had improved.

In education, funding for bilingual education continued and school attendance for indigenous children between 6 and 10 years increased from 12% in 2003 to 20% in 2011, with a 97% retention rate.

Box 1: Indigenous Peoples Development Technical Cooperation Program

The Bank's program included other technical cooperation operations to support various aspects of indigenous peoples' development. One aimed to support entrepreneurship capacity by indigenous peoples in response to difficulties under the Orígenes Program with creating productive associations and identifying viable local development projects. The technical cooperation operation was intended to more deeply assess culturally appropriate economic development plans for CH-L1014 beneficiary communities, and develop financial tools to make similar projects viable in the future, but only became eligible about six months before the loan closed. The technical cooperation operation improved the consultation processes that the project had used and created a framework that the government's Chile Indígena program intends to incorporate. It also provided technical assistance to communities to develop business plans outside the tourism area, but financing instruments to implement these remain pending. Another technical cooperation operation aimed to design a comprehensive multicultural development program for indigenous peoples in urban areas in view of a future Bank loan to support such a program. However, with the change in government, the technical cooperation operation lost its focus and only started disbursing two years after its original approval once the Bank assumed responsibility as executing agency. It has funded various studies related to indigenous economic activity in urban areas, supported the Mapuche Chamber of Commerce and its members with advisory support for business development and formalization of small enterprises and produced designs for two urban projects (a Mapuche industrial park and a cemetery for indigenous people), which have thus far not been implemented due to overly ambitious designs. Lastly, a technical cooperation operation to support ancestral farming successfully reintegrated stone farming onto Easter Island and created a tourism collective centered on the technique, but it is questionable to what extent the initiative can go beyond benefitting the 14 project beneficiary families.

In sum, the majority of SG operations approved prior to 2011 suffered from design shortcomings and have generally fallen short of expectations. Where technical cooperation operations were used to respond to specific government priorities and thus enjoyed government ownership, as in nonconventional renewable energies or the case of the Office of the Comptroller General, they made useful contributions, demonstrating that the Bank can add value in areas where it has the technical capacity and country knowledge to respond. Technical cooperation operations that had no clear government champions, like those on indigenous peoples, lost focus while those benefiting NGOs generally produced expected outputs but failed to generate a broader impact. Some of the Bank's recently approved operations, such as those in renewable energy, reforms of the labor training system, and the integrated trade system, harbor the potential to make a significant contribution in their respective areas if implementation stays on course.

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4 Conclusions and Recommendations

The Bank's 2011-2014 strategy set out ambitious overall and sector-specific objectives in areas where it envisaged engagement. While these objectives were consistent with some of Chile's key development challenges and aligned with government priorities, they were unrealistic and ambitious given the limited financial contribution and isolated technical and advisory services the Bank could provide to Chile. This suggests that the Bank will need to rethink how it formulates its goals and strategy in a higher-middle-income country like Chile and accept that its role will largely be opportunistic and limited to demand specific support based on government demand.

Faced with the government's limited interest in borrowing, the Bank struggled to engage on the public sector side during 2011-2013. The Bank tried to engage with technical cooperation operations and other grants (investment grants), approving a total of US$17.2 million in nonreimbursable financing, compared to US$17.3 million in approved SG loans. Technical cooperation operations often took a considerable amount of time to start execution and were costly for the Bank, as the Bank frequently assumed executing responsibility in order to ensure government interest. While some sector units saw this as an opportunity to complement their administrative budget to undertake knowledge work, Bank execution of technical cooperation operations was associated with significant costs. Nevertheless, where technical cooperation operations were used to respond to specific government priorities and enjoyed government ownership, they made important specific contributions, demonstrating that the Bank can add value in areas where it has the technical capacity and country knowledge to respond to demand by the government.

In the few areas where SG lending has been approved, the Bank's engagement built on previously completed analytical work and dialogue, but these loans ended up being expensive in relation to their small amounts of approved financing. The Bank's previous work demonstrated to Chilean policy-makers that the Bank possessed the technical capacity, professional network, and impartiality to add value. However, lending came at a high cost relative to the small loan amounts. In two of the three cases, loan processing in the Bank as well as in the government was lengthy, and Bank staff spent a considerable amount of time responding to ad hoc requests by counterparts as the loan-funded program was waiting to get off the ground. Overall, the Bank has struggled to find the right instrument to assist the country in a timely, cost-effective manner when an opportunity arises.

The Bank engaged more successfully through NSG operations, particularly in the energy sector where it found an important market niche. The combination of strategically placed technical cooperation operations and NSG loans and effective coordination with the Bank's private sector helped Chile identify new opportunities on the renewable energy front. Local presence and outreach were important factors in putting the Bank on the map and educating private entrepreneurs about available NSG products.

Although the Bank's strategy made knowledge generation and sharing a cornerstone of its engagement, insufficient efforts have been made to systematically capture and share such knowledge more broadly. While the Bank has helped generate some knowledge that has usefully responded to specific government demands, technical cooperation operations that aimed to generate knowledge more broadly often lingered. OVE found limited evidence that specific knowledge generated in response to government requests was systematically captured to be subsequently shared more broadly. A mutual collaboration agreement between the Chilean International Cooperation Agency (AGCI) and the IDB signed in 2012, but which has not yet made significant progress in its implementation, potentially offers opportunities in this area.

The evaluation highlights the challenges of engaging in a timely and cost-effective manner in a higher-middle-income country like Chile, particularly on the public sector side. Under the previous strategy, the Bank emphasized the use of the more flexible performance-driven loans (PDLs). However, the four PDLs under the CCLIP have significant design shortfalls leading to unrealistic targets that prevented timely disbursements. Moreover, the lack of operating guidelines made the instrument hard to use. During 2011-2013, given low demand for its financing, the Bank approved few small loans and a large number of mostly Bank-executed technical cooperation operations. Together with a sizable country office, this resulted in a relatively expensive work model with Chile, a model that is not likely to be sustainable for higher-middle-income countries as a whole. This suggests that the Bank needs to reconsider how it engages in higher-middle-income countries which do not look to the Bank to cover their financing needs.

Based on the findings of this evaluation OVE makes the following recommendations:

1. Frame the country strategy around realistic objectives that are within the Bank's capacity to achieve. The Bank's engagement in Chile will need to be flexible and timely, most likely focused around key issue areas where the Bank has recognized technical expertise and nonfinancial value-added. It is unlikely that the Bank's engagement can make major contributions along a broad array of ambitious strategic goals for the country, and the country strategy should recognize this by setting appropriate and attainable objectives.

2. Explore instruments for engagement that are cost-effective over the long term for Chile as well as for other higher-middle-income countries that may not ask for a traditional program of financing for the public sector. The Bank needs to adapt its existing instruments and explore new vehicles for engagement that are cost-effective and sustainable over the long term, unlike the recent mix of a few small loans and many technical cooperation grants. Options to explore might include, for example: (i) an umbrella agreement for a program of technical support to be provided on fee-for-service or cost-sharing basis, with individual interventions agreed upon semiannually or annually, in the scope of the Policy for Fee-based Advisory and Knowledge Services; (ii) a reconfigured performance-driven lending instrument; (iii) an agreement with the government to borrow a certain amount through an umbrella credit line to finance investment in key areas of collaboration; (iv) an agreement with the government to borrow a certain amount each year as budget support, possibly conditioned primarily on strong overall macroeconomic performance, in exchange for a program of targeted technical support in mutually agreed priority areas.

3. Ensure beneficiary execution of technical cooperation operations. To the extent that technical cooperation operations will continue to be used, the Bank should make beneficiary execution the norm rather than the exception in Chile. This will ensure government ownership and involvement in their implementation.

4. Continue to identify niche areas for private sector support where the Bank can add value and have the potential to play a catalytic role. The potential to add value may be particularly strong, for example, when the Bank's support to the private sector can be combined with support for policy and regulatory reform through the Bank's public sector window.

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5. Develop an institutional approach to systematically capture and share knowledge generated through Bank engagement in Chile for the benefit of the region. Chile has accumulated a significant body of good practice experiences in the design and implementation of public policies, and the Bank has contributed in some areas through technical advice and evaluations of such policies and initiatives. The Bank should make progress on internally capturing and systematically documenting the results and lessons learned from operations in Chile, as well as in other countries, and make them easily accessible to Bank staff and other important stakeholders. To the extent that such technical expertise and knowledge is transferable to other countries in the region, the Bank should take advantage of the recent agreement with AGCI to facilitate such a transfer.

1 (Exports + Imports) / GDP. Source: Central Bank of Chile.

2 In terms of products, copper is the country's main export, accounting on average for 54.6% of total exports in the 2009-2013 period. In this regard, as the largest consumer of copper, China concentrates on average 23.7% of total exports (and 36% of copper exports) in the same period. The other major export destinations are the European Union (16.5%) and the United States (11.3%). Source: Central Bank of Chile.

3 Other significant areas in terms of their contribution to the GDP include business services (14.5%), personal services (12%), manufacturing industry (11.2%), trade (9.9%), construction (8.3%), and financial services (5.6%). Source: Central Bank of Chile.

4 FEES was created in March 2007 with an initial contribution of US$2.580 billion, of which US$2.563 billion were in the predecessor Fondo de Estabilización de los Ingresos del Cobre [Copper Revenue Stabilization Fund]. In late 2013, FEES had a market value of US$15.419 billion. Meanwhile, the market value of FRP was US$7.335 billion. Source: Central Bank of Chile.

5 Since 2011, unemployment has hovered at or near 6.5%, the lowest level in the last 15 years.

6 Between 2007 and 2011, trust in institutions declined from 43% to 32%, double the average decline in the OECD (Gallup World Poll). The most extreme case is the lack of trust and dissatisfaction affecting the judicial system (24%).

7 In 2010, the rate of crimes in the home was 33%, the greater share being property crimes and robberies (Ministry of Interior). Meanwhile, the homicide rate (3.2 per 100,000 inhabitants) is the second lowest in the Americas after Canada (UNODC, 2011). The victimization rate reported in surveys was 28.2% in 2010 (OAS, 2010).

8 Similarly, between 2009 and 2013, the World Bank's share of public debt declined from 1.9% to 0.3%, and its share of the GDP decreased from 0.12% to 0.03%.

9 Note: The figure shows a proxy of the country's average international financing rate as compared to the Bank's financial costs (adjusted as a function of interest rate risk hedging). International rate (10 year Treasury note + EMBI).

10 The loan approved in April 2008 (US$400 million) for Transantiago's Financial Manager (AFT, an entity subject to private law) was designed to support the new public transportation system in Santiago, implemented in 2007, in view of the refusal by Congress in late 2007 to approve budget subsidies for the system's financial deficit. The loan disbursed US$288 million. However, in September 2008, the decrees that authorized AFT to take the loan without a sovereign guarantee were declared unconstitutional by Chile's Constitutional Court. As a result, the loan was canceled and repaid by the Chilean government in December 2009. The Bank suspended loan approvals between September 2008 and November 2009.

11 The *unidad de fomento* or development unit (UF) is a unit of account and is readjustable based on inflation.

12 Comprehensive programs, with several components, to prevent dispersion and very small technical cooperation operations (document GN-2642-1).

13 Under the strategy, once the diagnostic assessments of these areas are completed, and if both parties agree, the possibility of updating the strategy will be examined (document GN-2642-1).

14 In addition, in early 2012, the active SG portfolio consisted of 13 loans distributed in eight areas with a balance of US$313 million, primarily in water and sanitation (51%), urban development (25%), and modernization of the State (13%).

15 Between 2011 and 2013, the Bank also prepared three CPDs considering approvals for US$92.3 million in SG loans and US$437 million in NSG operations.

16 It is worth noting that, while the level of approvals was significantly lower than during the previous government administration, the approvals in 2006-2008 were in large part for PDLs that experienced design and implementation problems and were subsequently canceled.

Notes

[17] The borrower's neutral role as an honest broker in an initiative that involves several public institutions is also valued, as is its experience in complex projects involving interoperability and international bidding processes.

[18] The project's targets also include increasing the percentage of successful outcomes of judicial proceedings to 80% when the State acts as claimant and to 95% when the State acts as respondent. In prior years, the CDE's judicial success ranged from 27% to 60%. As an example of the potential impact, in 2013 the government had liabilities in the amount of US$886 million arising from lawsuits against the treasury (DIPRES).

[19] In addition, at year-end 2010, there were 21 active technical cooperation operations with an undisbursed balance of US$6.09 million.

[20] Considers amounts originally approved for Ordinary Capital-funded operations. During 2011-2013, US$20.7 million was also approved for operation CH-L1069 (Pozo Almonte and Calama Photovoltaic Power Project) with resources from the Canadian Climate Fund administered by the Bank.

[21] Includes cash and noncash transactions carried out in the WLMS.

[22] Local bank financing of NCRE projects is mostly provided in the form of peso-denominated corporate loans (based on the client's profile) for terms of less than 10 years.

[23] In 2012, the Bank (SCF) approved an initial operation (CH-L1069) to support the construction, operation, and maintenance of three photovoltaic solar energy plants, the first such plants to be built on a commercial scale in the country (see Climate change section, Chapter 3). In addition, as of 15 March 2014, the pipeline (A and B) for 2014 includes six NCRE projects for a total of US$334 million.

[24] Since the signing of the agreement for the Special Technical Advisory Program (PSA) in 2000, Chile has contracted 10 consulting projects for a total of US$542,000.

[25] As of 3 April 2014, the Bank's country office in Chile (excluding the MIF and IIC) has 30 assigned staff members, of which seven are sector specialists (ICS, EDU, WSA, TSP, INF-SCF), nine are other staff (CSC, FMP, ITI), and 14 are consultants (CSC, FMM).

[26] These figures include the costs of consulting services, wages, benefits, and travel based on hours reported by Bank staff (whether in Chile or elsewhere) in the Time and Labor system.

[27] Only level-1 and level-2 officials were covered, since the financed study for level-3 officers did not use a representative sample, and its results were deemed invalid.

[28] The initially proposed pilots were eliminated when the project was reformulated in 2011.

[29] The strategy contained an objective of improving instruments to foster productivity under its public sector reform component, an objective related to the ARDP program (see Chapter 3, Section B).

[30] Each of the four PDLs was designed to disburse an initial tranche as an advance, followed by other tranches against achievement of specified results. An independent consultant was to verify achievement of agreed upon results and related expenditures.

[31] The total amount of the CCLIP was US$400 million; the four approved operations amounted to US$320 million; the remaining balance was to support a fifth operation, which had been approved but not signed by the government.

[32] The policies covered a wide range of topics related to regional priorities, such as development of social capital, human resources, agriculture, tourism development, and green space.

[33] A final evaluation of the operation was recently contracted to look into what has come out of studies and plans and to what extent subnational management capacity has actually increased.

[34] The Bank reviewed 78 projects and found that 40% had exceeded allowable costs.

[35] DIPRES, Panel Report, Heritage Enhancement Program, August 2013.

[36] Surplan, Verification of Heritage Enhancement Program Outcomes, December 2012.

37 The evaluation contracted by DIPRES found that while about two thirds of completed projects reviewed had led to increased community involvement and cultural activity, only about a quarter led to increased tourist activity and some small-scale economic activity related to that.

38 Results of an analysis of "the effect of compulsory day care on women's wages" were used to prepare proposed amendments to the related law. Results of an evaluation of the impact of a voucher program on employment, labor mobility, and salaries served to introduce changes into the program. The effectiveness of these changes will be evaluated under the SENCE support project. An analysis of the impacts of labor contracts on wages and income is nearing completion.

39 The Sector Program to Strengthen Early Childhood Education (CH-L1022) for US$10 million and the reimbursable technical-cooperation operation (CH-L1055) for US$1.7 million, which supported the program.

40 Another technical cooperation operation aimed to test an e-learning initiative as part of a multi-country exercise, but had no clear ownership or counterpart in the Ministry of Education. The main counterpart of the most recently approved technical cooperation operation has been DIPRES in the Ministry of Finance.

41 The 2012-2013 action plan under the agreement established the following thematic areas of cooperation: (i) foreign trade and regional integration (cooperation in the framework of the Pacific Alliance, strengthening the development and regional coordination of food exporting sectors in terms of food safety); (ii) strengthening of Chile's institutional technical capacities on South-South and triangular cooperation issues.

42 For example, since 2012 Chile chairs the Inter-American Network of Single Windows (known by its Spanish-language acronym, VUCE), a cooperation initiative supported by the Bank that seeks to promote the use of electronic windows as a trade facilitation tool in the region and move forward on the harmonization of procedures.

43 The time elapsed between approval and signing of the contract was associated with the structure of the guarantee. In this regard, the Bank's greatest difficulty (considering that this was one of the first OMJ guarantees) was in determining the pricing and the extent of legal studies.

44 Since the agricultural export sector is segmented by number and size of enterprises, national banks allocate lines of credit based on sector portfolio risk, which is determined by the client's ability to pay, rather than on business or investment plans.

45 The project for US$1 billion will include a government subsidy (US$20 million) and a US$500 million concessional financing package (CTF, IDB, KfW, EU).

46 In addition to the IDB, participants include IFC, OPIC, KfW Ipex-Bank GmbH, DNB Bank ASA, Corpbanca, Banco de Crédito e Inversiones, Banco Itaú Chile, and Banco Estado de Chile.

47 Lack of transparency in the use of transfers made to communities and line agencies led to allegations of misconduct and the program being subject to investigations by two parliamentary commissions. These concluded that while there was no evidence of misuse of funds, the program had not met expectations and had been poorly managed, with inadequate financial documentation or controls.