



RE-320

*Country Program Evaluation: Chile
1995-2005*

Office of Evaluation and Oversight, OVE

Inter-American Development Bank
Washington, D.C.

For OVE Official Use Only

TABLE OF CONTENTS

PREFACE

EXECUTIVE SUMMARY

I.	BACKGROUND.....	1
II.	PROGRAM INTENT AND DELIVERY	6
	A. Program intent	6
	B. Program output delivery	7
	C. Value of technical assistance.....	10
III.	EFFICIENCY OF PROGRAM OUTPUT DELIVERY, FIDUCIARY, EXECUTION AND LOW-EVALUABILITY RISKS.....	12
IV.	AID EFFECTIVENESS.....	16
V.	PROGRAM’S OUTCOMES: DEVELOPMENT EFFECTIVENESS	18
VI.	CONCLUSIONS AND RECOMMENDATIONS.....	25
	A. Conclusions	25
	B. Recommendations	27

PREFACE

The Bank's Office of Evaluation and Oversight (OVE) is mandated to produce a Country Program Evaluation (CPE) whenever there is a change in the government of a client country. CPEs serve two evaluative functions: (i) they provide an account to the Board of Directors regarding the results achieved from Bank action in a country over an extended period of time; and (ii) they provide an opportunity for reflection and lesson-learning regarding how the Bank could improve the effectiveness of its program in the future. While the basic information in the evaluation comes from a retrospective look at actions and accomplishments in the past, the purpose of the document is to contribute to a forward-looking exercise for the next Country Strategy Paper.

CPE generally assesses four core performance dimensions of the results of the Bank's program¹: *relevance, coherence, efficiency, and efficacy*. These evaluative dimensions are invoked for both the aggregate strategic goals of the program and for the goals of the individual operations that comprise the Bank's country portfolio. In addition, this CPE also judges the country program with respect to the evaluative criteria of the Paris Declaration on Aid Effectiveness: *ownership, alignment, harmonisation, managing for results, and mutual accountability*. These criteria are not normally invoked in a CPE and are not part of the protocol governing CPEs. The Bank only recently assumed this agenda, which has tentative targets for 2010. The objective of invoking these evaluative criteria in this CPE is to determine the magnitude of the challenge facing the Bank. Note there is no strict correspondence between these two sets of criteria.²

It should be noted that OVE does not follow a completely homogenous *a priori* defined structure and content for its CPEs due to the heterogeneity of countries and country programs. This is reflected in two themes of the CPE: standard and idiosyncratic. If standard assessments produce standard results, these are only briefly presented in the CPE's narrative. Idiosyncratic findings, i.e. issues that are more important than others and that have greater salience for the present and future than others, are given greater emphasis. These form the story lines that thread the various chapters and evaluative dimensions and form the core of the narrative and are the basis of most of the CPE recommendations.

In addition, the veracity of a CPE finding depends critically on the collaboration from the relevant actors in the Bank and the country. Collaboration reduces the probability of errors of fact, omission and interpretation. This CPE is a product of an exceptional collaborative effort between the Administration and the country. The Office appreciates the assistance of the people interviewed for this CPE.³

EXECUTIVE SUMMARY

This Country Program Evaluation covers two programming cycles encompassing the period from 1996 to 2000 to 2005. The evaluation has found that the country and the Bank have successfully worked together to achieve a program that has a high level of country ownership and one that has contributed to the Bank's cross-fertilization role amongst its clients. However, success was constrained by the Bank's business model of applying policies and procedures homogeneously amongst its clients. This feature rests uncomfortably with Chile's outlier status (in the sense of laying in the top quintile) of most performance indicators: economic, political, social, poverty reduction, and access to private international capital markets amongst the Bank's clients.

The result of a "one suit fits all" business approach is that the Bank has become increasingly uncompetitive in Chile hence irrelevant as a major source of external financing for the public sector. Further, the value of the other services offered by the Bank has been eroded over time. Firstly, the precautionary ring fences built around its individual operations have remained as transaction costs –a hassle factor– that no longer adds value to the country's fiduciary and execution risk prevention mechanisms thereby reducing the competitiveness of IDB lending instruments. Secondly, the option value of access to the Bank as a lender of last resort in times of reduced access to international markets has fallen over time as the country's growth downside risk has fallen. Thirdly, the technical assistance service faced an increased mismatch between the demand by an increasingly sophisticated economy like that of Chile and the supply of in-house expertise of a small bank like the IDB. Nonetheless, Bank's officials have played a key role in coordinating domestic actors to obtain consensual technical solutions in areas where there was either no clear institutional hierarchy relative to the Ministry of Finance or in areas where a third party actor, providing an international stamp of approval, helped in resolving policy stalemates.

Within a severely reduced actual relative to the potential frontier imposed by Bank-wide rules and practices, the program can be judged as successful with respect to the four core evaluative dimensions. Firstly, the program's *relevance*, as judged primarily by the intersection set between development challenges of the country and those taken up in the country program, was high as there was a high intersection set. However, relevance can also be judged with regard to the Bank's role as a source of external financing for the public and private sectors in which case it is not relevant. Secondly, *coherence*, as judged primarily by the degree of integration of the full range of instruments and coordination of Bank's actions with those of other development actors, was high regarding instrument use, if the non-use of PBLs (normal and emergency conditions) during the country's recession is ignored. No information was found by OVE regarding the direct coordination by the Bank with other development actors. Thirdly, *efficiency*, as judged primarily by the degree that the program outputs were delivered in a timely and problem free fashion, was high with respect to Bank averages. However, this judgment is made with respect to Bank averages. A more relevant benchmark is the country's system in which case the evaluative finding is that the Bank's precautionary risk fence was an unnecessary transaction cost to the country and the Bank but without any value added. Fourthly, *efficacy*, as judged primarily by the degree that the problems that were tackled were ameliorated, was high. This assertion is based on OVE's independent work as the Bank's Monitoring and Evaluation system provides little to no development outcome information. With regards to aid effectiveness evaluative criteria of the Paris Declaration, criteria not normally invoked in a CPE, the following was found: (i) the

program does very well in terms of the *ownership* criterion, and (ii) the program generally faces enormous challenges with respect to the other criteria of: *alignment, harmonization and managing for results*. Progress in these dimensions would reduce transaction costs and align the Bank to the country's results based policy system.

Two other features of the Chilean program that stand out: the program is one of the the most expensive and one of the least evaluable. The high cost of preparation can be attributed to the small dollar size of the individual loans, the high number of non reimbursable operations, and the role played by Bank staff in coordinating local actors. The low *de facto* evaluability is due to the Bank's system's failure to capture development outcome information. This failure is incongruent with the excellent information gathering and analysis found in the country's monitoring and evaluation system. The data generated by the Chilean government and other organisations show that a minimum effort (time and budget) is quickly rewarded: many of the development challenges that the program attempted to tackle have been ameliorated over time. This assertion holds for most of the performance indicators of each of the program's three strategic goals: (i) increasing competitiveness; (ii) improving welfare and reducing regional and social inequality; and (iii) modernising the State. The two significant indicators that show no improvement are household income inequality and regional inequality. Most of the individual projects evaluated show significant positive development effects both for *naïve* and impact calculations.

With the prospective purpose of a CPE in mind, it should be noted that the next program is being prepared (and will be implemented) as the country has emerged from a recession and has retook a high growth-falling debt path; characteristics reminiscent of the 1996 programming cycle. Although history does not necessarily repeat itself, in that cycle the country cancelled many operations, prepaid others and had practically zero borrowing until the recession of 1999. Further, in contrast to that period, the country's vulnerability indicators all show significant improvements. The recent copper price boom, where copper prices have increased fivefold since 2003, has allowed the country to replenish its copper fund and selectively cancel some debt. The government has begun to partly sterilize the unanticipated revenue into an offshore fund to be drawn on in case of the anticipated downturn in copper prices. This policy will immediately stem pressures on the real exchange rate and reduce the vulnerability of the country to the vagaries of future copper price fluctuations. The boom has also accelerated the prospective of the country transiting from the problem of liability management to the problem of asset management. In this prospective, the country's president has thrown down the following challenge: "*If we continue to do things well, we can soon reach income levels of a developed country*". The challenge is not trivial. A comparison of Chile's economic and social performance indicators with those of the OECD countries shows that Chile generally lies in the lower two quintiles.

A general finding of this evaluation was that the services offered to Chile by the Bank have become increasingly uncompetitive regarding public operations and in an undersupply of private sector operations relative to business opportunities. The Bank's business model is outdated and overburdened with unnecessary bureaucracy that prevents it from adequately responding to the needs of its different clients. Nonetheless, possible changes by the Bank under the umbrella of "realignment" may allow the Bank to redefine its service mode. If Chile is a harbinger of similar business model problems with the Bank's other clients, there is some urgency for action.

Although a comprehensive detailed set of recommendations for change is beyond the scope of this report, the following recommendations, in line with a new business model, can be made:

Firstly, initiate a pro-active search for development business opportunities and, simultaneously, support that search by making Bank's loans more attractive. A pro-active search for business may require flexibility in the location of front office and back office activities between headquarters and COF, particularly but not exclusively, for private sector operations. The private sector emphasis made reflects that the probability of significantly increasing public sector operations may be limited. However, the limit may be partially overcome to the extent that the future program attempts to exploit synergy effects by offering a coordinated mix of instruments for development problems in which the solutions involve both public and private actors. However, this will require effective intra-Bank coordination between the different lending arms of the Bank and a more strategic use of non-reimbursable funds: both options have proven elusive so far. Simultaneously, there is a need to make IDB loans more attractive. Barring the option of differential pricing policy, one option is to eliminate exchange rate risk for Chile by issuing peso denominated debt in the local market and to support issuing Chilean peso denominated bonds in the international market (although it should be noted that there is low probability of Chilean public international debt issues). The options should be explored for both public and private sectors, where for the private sector the marketing of cross-boarder debt instruments to regional investors could also be explored for intra-regional investors in activities like energy, pipelines, capital markets including intra-regional direct foreign investment. Another option is to eliminate unnecessary transaction costs for both the public and private sector arms of the Bank. This can be achieved by replacing most components of the Bank's precautionary ring fence by the country's systems. For public sector operations this will require moving beyond the traditional project approach towards a menu of instruments that includes one that finances a budget line item or by seeking selective exemptions from the Bank's policies and regulations governing operations. This should be done without the paraphernalia associated with its existing loan instruments, but with an outcome monitoring and evaluation system. Discussions should be opened with the country's authorities of the desirability of transforming the existing stock of operations towards such an instrument. For the private sector operations, the Bank should consider setting up a financing mechanism which the private sector lending arms could draw on to partially absorb transaction cost and to enter into potential deals at a much earlier stage than is currently feasible. Such actions would contribute towards increasing the relevance, efficiency and aid effectiveness of the program.

Secondly, measure the development effectiveness of the programs jointly with the country and provide an institutionalised forum for lessons learnt. In practice this will require connecting the outcome performance indicators of existing and new projects to the country's information gathering and evaluation system not only to generate information for process evaluations but also for impact (treatment effect) evaluations. An evaluation work plan agreed with the Budget Directorate of the Ministry Finance would be a desirable feature of the next country strategy, as would be an in-house evaluative expertise. The latter point indicates that the new business model will require a different skill mix to that which exists today. The experience gained by the Bank in implementing this plan would provide valuable lessons for the Bank's own managing for results agenda in addition to its accountability purpose. The knowledge gained in the Chilean program and in other clients' programs requires the provision of a regional platform for Chile to export innovative solutions to given problems thus not only making explicit and

efficient the Bank's cross-client fertilization role, but also contributing to the Bank's learning and lesson found agenda. Such a platform should be in the context of an institutionalized stock of knowledge of what works, what does not, and why that draws upon and feeds into operations with clients. This platform would provide the backbone for a proactive search of development business opportunities. Such an initiative would also move the Bank towards its aim of becoming a "Knowledge Bank". The benefits for the other clients via the Bank should be invoked to discount the cost of the Chilean program hence avoid concentrating resources based only on actual and perspective loan concentration. Such actions will move the Bank significantly towards the managing for results and development effectiveness agendas, thus improving the efficacy of the program.

Finally, the Bank should engage the authorities on the possibility of focusing its strategy in the areas of regional and household inequality in opportunities and capabilities and poverty through parallel public and private operations. Less than satisfactory results of past policies in the area of inequality suggest a new generation of policies and programs needs to be developed. Success in poverty reduction of past policies suggests a new generation of poverty reduction programs geared towards a smaller targeted population need to be developed. These new solutions may very well require a judicious mix of private and public actors with a greater role for the private sector than the mix of existing programs. The possibility of participating in the designs of this new generation of programs represents an important opportunity for the Bank, not only to support the country in the search of new solutions but also to build institutional knowledge of new solutions.

These recommendations are neither budget neutral nor straightforward to implement but involve up-front transitory costs associated with experimenting with a new business service model. However, the potential returns of implementing the recommendations are high: not only for the IDB's relation with Chile but also from the potential replication in other similar clients. The adoption of the country's fiduciary and execution systems recommended above will free both financial and human resources for positive value added tasks. Chile's program already is one with a history where the Bank has experimented with new operations that have been copied in other client-countries. It is thus well placed for experimenting with systemic changes in the Bank's service model, hence serving as an example. The question is whether the Bank is so well prepared.

I. BACKGROUND

- 1.1 The general purpose of this chapter is to set out the features of the country and the Bank that defined the basis on which the country programs were conceived, implemented, and modified over the period 1995 to 2005. During this period there were two country programs approved: the first in 1996 and the second in 2000. The specific objective of this chapter is to anticipate: (i) the programs' outputs, i.e. the financial and instrument mix dimensions; and (ii) the program outcomes, i.e. the strategic development challenges of the country that are identified and taken up in the programs. In addition, with the objective of contributing to the forward-looking purpose of a Country Program Evaluation (CPE), the chapter ends with a discussion on the prospective of the country.
- 1.2 For an understanding of the financial and instrument mix of the Bank's country program, it is useful to contrast the critical features of the country and of the Bank. The critical feature of Chile is that the country was one of the better performing (an outlier in the sense of laying in the top quintile) countries amongst the Bank's clients in the mid-nineties, and is even more so today in terms of the commonly used economic, governance, social, poverty rates, and access to private international capital markets performance indicators.⁴ The only significant exception is income distribution; it lies in the middle range.
- 1.3 Two additional features of the country can be emphasized. First, public indebtedness has been reduced as a result of fiscal prudence: the consolidated public debt ratio fell for most of the period, but cycled upwards during 1998-2002 reflecting an accommodative fiscal stance (deficits from 1999 to 2003) during an economic downturn.⁵ The downturn followed the fall in the price of copper in 1998 (to the lowest level since 1987) and was exacerbated by the Asian crisis and its after-shocks. Concomitant to the reduction of debt, the country has improved its credit rating and reduced sovereign spreads (both public and average corporate) to significantly below the LAC average. Second, the country successively avoided an extreme crisis. These have typically plagued many of the Bank's clients, both in terms of the duration of the downturn and the loss of GDP, before the recovery to the initial levels. In Chile, recovery to the 1998 level occurred by 2004. However, from the late nineties onwards, the economy was characterised by total factor productivity growth becoming negative, and a decline in microeconomic flexibility. Unlike many other clients, Chile's access to international capital markets was not curtailed during the recession.
- 1.4 The generally outstanding performance feature of Chile rests uncomfortably with a critical feature of the Bank –namely that its services are offered within policies and procedures that mostly have to be applied uniformly across its clients. This homogeneity of policies and procedures in the face of the heterogeneity of clients imposes constraints on the task of tailoring the country program to the margin of those policies and the country's needs. The Bank's business model is based on the assumption that the services offered by the Bank to its clients have the following sources of value added compared to private commercial lenders: (i) a cheaper source of external borrowing (for both the public and private sectors); (ii) a lender of last resort when client access to international

commercial markets is reduced; (iii) a means of reducing fiduciary and execution risk; (iv) a source of technical assistance; and (v) a platform for the borrower's regional policy. These services are offered in line with the Bank's mission to contribute towards the development of its clients.

- 1.5 However, the Bank's actual value-added⁶ in each of the services, is problematic for both the Bank and for Chile. The Bank is no longer a cheaper source of international financing for the public sector.⁷ This fact suggests zero borrowing. However, gross borrowing is small and positive, a feature that could be accounted for points (ii) to (v) above, in that together they have a value greater than or equal to the interest premium. However, the probability of recourse to the IDB (and generally official sources) as a lender of last resort is low, and falling in line with the decline of the country's growth downside risk. In fact, the country did not resort to the Bank's instruments (i.e. policy-based loans on normal or emergency terms) for smoothing the negative effects of external shocks. Instead it emitted a sovereign bond in the midst of its worst recession year, 1999.⁸ The rest of the premium must thus be accounted for by the value of technical assistance and access to the Bank's precautionary (fiduciary and execution) risk ring fence built around each project.
- 1.6 The situation is in principle different for the Bank's potential relation with the country's private sector. The Bank's private sector lending arms (PRI and CII) have a differentiated pricing policy. However, PRI operations were limited to particular sectors.⁹ In addition, both bring to the negotiating table an invariable package of add-ons relative to private competitors. These add-ons are tacked onto their operations to obtain development additionality, or to reduce risks to the IDB through each individual operation. In terms of their potential market, although the country's domestic financial system is relatively well developed and integrated with international capital markets, access to financing is highly differentiated by firm size.¹⁰ Only mega-sized firms have complete access to international capital markets (where average corporate spread is below the Region's average), and to the full range of domestically available financing instruments, including a relatively developed foreign exchange derivative market for asset-liability risk management. Access to credit and financing instruments by micro and small-medium enterprises remains below the average level found in developed countries, however. Thus, there is a market segment where the Bank's private arms remain relatively competitive, particularly for long tenors.
- 1.7 For an understanding of the development challenges that a country program commits itself, an enumeration of the country's development challenges is required. For many of the Bank's clients, their National Development Plans are a convenient source for identifying their development challenges. However, Chile does not have a formal Congress-approved National Development Plan. An alternative approach relies upon public opinion polls, electoral platforms during presidential elections, and general government policy statements. They provide an approximation of the relative importance of the issues facing the citizenry and the debates on policy options for dealing with them. A comparison of opinion polls, presidential elections, government policy statements, and annual budgetary laws shows a high degree of commonality of issues identified by the main presidential candidates' platforms and successive governments.¹¹ This commonality

reflects the high degree of policy pragmatism. In the country, consensual government has prevailed over ideological confrontation regarding its long-term development strategy. The commonality of policies over time has also been helped by the same political alliance being re-elected since the return to democracy in 1990 (governments of presidents Alywin, 1990-1994, Eduardo Frei, 1994-2000, Ricardo Lagos, 2000-2006, and Michelle Bachelet, 2006-).

- 1.8 Key elements of the consensus can be summarised in the following five points. Firstly, that the private sector is the dynamic engine for growth and employment, while the public sector regulates the adequate functioning of markets. Policy is marked, wherever possible, by complementing and using the private sector in public programs. This policy does not generate controversy as it does in some of the Bank's clients. In fact, the private sector is increasingly used not only in the provision of infrastructure but also in the provision of social services. On the other hand, the country maintains key industries under public ownership (e.g. copper through CODELCO).
- 1.9 Secondly, that trade liberalization and an open economy are critical for development given the smallness of the domestic economy. The country, after a period marked by a policy of unilateral trade liberalisation, followed in the nineties a policy of additive regional agreements, i.e. a process of sequentially negotiating bilateral free trade agreements with all significant trading partners. These originally consisted of neighbours but later extra regional partners. The latter in recognition of the need to geographically diversify trade to reduce the negative neighbourhood effects.
- 1.10 Thirdly, that State modernization and increased public sector efficiency needs to be a continuous feature of policy to obtain a virtuous cycle characterized by better policies and better institutions.¹² One mechanism used is performance contracts that have gradually increased in the scope of entities covered and involve not only conventional performance indicators but also outcome measures. Another mechanism used is evaluation of programs (with evaluations ranging from desk reviews, comprehensive expenditure reviews to impact evaluations). The third mechanism used is bidding funds available to line ministries and sub-regional governments.
- 1.11 Fourthly, that prudent fiscal management, recently enshrined into a structural balance fiscal rule, in the context of an independent monetary policy governed by inflation targeting and public transparency and accountability is a critical underpinning of the country's development. Fiscal policy is also marked by an attempt to reduce inertial public spending through, for example, the Fund for Priority Programs that ministries can bid to finance new projects. Another example is the increased use of sunset clauses for public programs. The fiscal rule is an example of a practice without the sanction of a special law. It is also an example of using non-government actors to reduce the probability of manipulation by the executive. Its functioning depends on estimates of potential output and copper prices. Two panels of publicly known experts are chosen each year to estimate them.
- 1.12 Finally, that social distributive justice requires policies to eliminate extreme poverty and establish protection for vulnerable groups and regions (particularly the extreme north and

south of the country) through targeted public programs with a high degree of participatory role of potential beneficiaries. An instrument that is increasingly being used to increase the participation of citizens is that public programs increasingly operate through competitive funds to which potential beneficiaries can apply. The combination of growth and anti-poverty programs has been successful, as poverty has been substantially reduced.

- 1.13 The exception to the consensus is household income distribution where there is no convergence to a consensus regarding the problem and the policies to tackle it.¹³ In fact, public opinion polls do not directly identify this issue. In 1996, polls emphasized the following four problems in order of importance: poverty, health, crime, and wages. In 2005, the polls identified the top four problems in order of importance as: crime, employment, health, and poverty.¹⁴ However, all can be directly and indirectly related to inequity in income and the underlying inequity in opportunities and capabilities.
- 1.14 With the forward-looking purpose of a CPE in mind, we end this chapter with a brief discussion of the macroeconomic and development challenges expected to hold during the next program cycle. A revision of the literature suggests that most analysts agree that Chile's economy has returned to the positive sustainable macroeconomic performance path it had prior to the downturn in 1999. The new country strategy is, thus, being prepared as the economy has returned to a primary fiscal surplus (partly due to the copper price boom), a policy of reducing public debt, and positive economic growth; features that are expected to hold for the next programming cycle barring unexpected shocks. Complicating the Bank's financial relationship with the country is that the public sector debt is expected to decline further from its already low figure of 10% of GDP,¹⁵ with a policy aimed at obtaining a government benchmark in the long-term segment of the domestic market.¹⁶ In addition, the recent copper price boom has allowed the country to replenish its copper fund, and the country is, in addition to cancelling Hacienda's debt with the central bank, planning to sterilize further "extra" revenue into an offshore social fund to be drawn on in case of a future downturn. The sterilisation, in turn, will reduce pressure on the real exchange rate.
- 1.15 Most analysts also agree that the main development challenges are social progress (including an increase in capabilities and opportunities), and increased microeconomic flexibility to obtain positive total factor productivity growth.¹⁷ In the country, there is a growing empirical-based policy *cum* program design discussion on how to tackle these challenges. The country's success in reducing poverty implies it is on the verge of seeking poverty reduction programs whose design is more suitable to a smaller targeted population.¹⁸ That regional and household inequality and their underlying inequality of opportunities and capabilities have not been reduced significantly also implies a search for a new generation of policies *cum* programs. In the area of health the almost doubling of expenditure, since the early nineties, has not resulted in a commensurate increases in services. If productivity was the same as in the early nineties the health system could provide an additional 1.5% of GDP.¹⁹ The education budget has also doubled but there are no clear signs of a significant improvement in quality or equity.²⁰ For public administration there is also a significant room for improvement: if the quality of the Chilean state bureaucracy can be improved, this could contribute an additional 1.5% of

GDP per capita.²¹ Microeconomic efficiency discussions focus on the country's inadequate anti-trust laws and the requirement for a new generation of regulatory frameworks for banking, electricity, and telecommunication, and the need to deregulate to reduce time and monetary cost of creating new firms.

- 1.16 Income inequality and the underlying inequality of opportunities and capabilities were major themes in the recent presidential election. Public statements by the country's new President suggest that her administration may well place greater emphasis on this issue and within the overall policy framework that has prevailed since 1990. However, Chile's exceptional performance relative to other Bank's clients may be inappropriate to determine the country's development challenges. The country's outlier status suggests that the domestic policy debate often invokes OECD countries as benchmarks with which to judge the gravity of the development problems. In such a comparison, Chile lies most often in the middle to lower end of the distribution of conventional performance indicators. This suggests that the country will continue to emphasize macroeconomic stability, but redouble its efforts on microeconomic efficiency and political and economic equality through policies aimed at increasing the equality of opportunities and capabilities.²²
- 1.17 Nonetheless, in her first State-of-the-Union address the President captured the generalised optimism of "can do" in the country: "*If we continue to do things well, we can soon reach income levels of a developed country*".

II. PROGRAM INTENT AND DELIVERY

2.1 The purpose of this chapter is to present the evaluation's findings that contribute to the relevance and coherence dimensions of the evaluation. Each evaluative criterion is judged with respect to both the *ex ante*, i.e. promised in the program documents, and *ex post*, i.e. actually delivered, characteristics of the country program. The specific objectives are twofold. Firstly, from the country strategy documents to determine intent-benchmarks for: (i) program outputs (financial and instrument mix); (ii) coordination with other external official actors; and (iii) development goals. Secondly, from the Bank's reporting systems, to determine if the promises were delivered with respect to program outputs and coordination, leaving the discussion on development goals for chapter V. This chapter ends with a discussion on the value of technical assistance.

A. Program intent

2.2 Before discussing the three intent-benchmarks of the program's outputs, coordination and development outcomes, it is useful first to contextualize the two country programs. They differed with respect to the macroeconomic context, perspectives, and the process with which they were prepared. The program that was approved in 1996 covered the period up to 2000. It was prepared when the country had a long-track record of good macroeconomic performance (a primary fiscal surplus and a policy of reducing debt and high economic growth); and when good performance was expected to continue. During the program's preparation year, the government prepaid and cancelled some operations, although maintained the programs with local financing.²³ The subsequent program, which was approved in 2001, covered the period up to 2005. It was prepared, when the country had entered into a recession, had a rising fiscal deficit, and an increasing foreign public debt.

2.3 In addition, the Bank adopted very different processes in their preparation. The program of 1996 was prepared –as was traditional at that time– with only a dialogue with the Executive. In contrast, the program of 2001, sought to better capture the needs of the country and to obtain a consensus regarding the program through an increased number of missions, studies, and workshops that were attended by government, academic centers, business, and civil society representatives.²⁴ Consultations with the civil society in the preparation of programs was not confined to the Chilean case but reflected a change in the Bank's country program practice. Nonetheless, in the Chilean case the consultations were in line with the Lagos' government's policy of expanding the role of civil society in the political process. Another feature of the 2000 strategy was that it was prepared with new actors both in the Bank (Coordinator, Economist, and Representative in COF) and in the country (by a new Budget Director who was an ex director of the Bank's Board). However, the strategies did share a common institutional context. The Budget Directorate of the Ministry of Finance effectively coordinated different actors within the country with the IDB and other official external assistance entities.

2.4 However, the aim of determining numerical benchmarks of intent with which to judge *de facto* delivery is frustrated given the absence of numerically based intent in the strategies. Firstly, the two strategies do not have full quantitative statements on expected program

outputs thus a benchmark cannot be constructed. They differed with respect to the anticipated financial flows and instrument mix dimensions. The 1996 country strategy document state that program's outputs would be technical assistance and private sector lending operations. However, no numerical statement of these expected operations was given. The 2000 country strategy noted, "...A new stage has been opened in its relation with the Bank, based on providing loans..." (Page 26) and envisaged a US\$600 million program concentrated in the first two years of a five-year cycle. The program anticipated seven public sector operations (for US\$525.5 million) two PRI operations (for US\$96.7 million), and 12 TCs (for US\$3.8 million). By asserting "a new stage" in the relation between the Bank and Chile it appears that the Bank interpreted the temporary cyclical downturn as a structural change in the relation.

- 2.5 Secondly, no mechanisms of coordination with other official external assistance agencies were proposed. Both country program documents have brief discussions regarding coordination with the World Bank.²⁵ They both assure the reader that there will be coordination with other actors but neither makes explicit what, where, and how, that coordination will occur.
- 2.6 Thirdly, no full numerical statement of development outcome was made. The 1996 strategy document emphasized four areas: (i) private sector productivity; (ii) economic and physical integration; (iii) environment and natural resources; and (iv) modernization of the State. The 2000 strategy document maintained (i) and (ii) under the umbrella of increased competitiveness, replaced environment with social and regional inequity and improvement of welfare; and maintained the modernization of the State. Thus, they had a high degree of commonality and congruence with government priorities. However, both strategies, to different degrees, are devoid of numerical benchmarks. The country program of 1996 does not have numerical targets for program outputs or development outcomes.²⁶ The 2000 program makes a qualitative leap in both dimensions: it does have numerical targets for program outputs but only for the first two years and some performance indicators.²⁷
- 2.7 An alternative approach in a search for benchmarks is a bottom-up approach. From the loan documents of the individual projects comprising the Bank's portfolio could be obtained: (i) program outputs i.e. expected financial flows, activities and outputs (as defined in components of the logical framework), and (iii) development outcomes (the purpose and goals in the Bank's logical framework). However, although complete numerical information on expected financial flows can be constructed, this holds less so for output and development outcomes. The *ex ante* evaluability completeness index that measures the extent that objectives have metric indicators, baselines, milestones, and targets is on average 40% for output objectives and 15% for outcome objectives. Thus there is also a dearth of numerical benchmarks from the bottom-up approach.²⁸

B. Program output delivery

- 2.8 This section describes the patterns of *de facto* delivery with regard to program outputs (the aggregate pattern of financial stocks and flows between Chile and the Bank), the use of instruments and coordination.

- 2.9 The importance of the Bank as measured by financial flows is an input for the relevance evaluative dimension.²⁹ As anticipated in Chapter I, from 1994 to 2005, Chile reduced its outstanding debt stock with the Bank in absolute dollar terms to US\$0.6 billion, and as a percent of total external debt to 7% by 1997, hovering around these levels thereafter. Net loan flow to the country was negative except for the recession years 1999-2000 and 2003 while net cash flow was negative every year except for 2003. The country program has also been characterized by portfolio cancellations and prepayments, with peaks in 1994 and 2004. The Bank was irrelevant in terms of a provider of financial resources: disbursements during 1996-2004 were 0.6% of central government expenditure.³⁰
- 2.10 Importance has to be thus sought at the micro and process levels. The importance placed on each strategic area, as measured by the distribution of the dollar value of the total approvals, was³¹: (i) increase in competitiveness: 56.4%; (ii) the reduction of social and regional inequity and improvement of welfare: 39.8%; and (iii) the modernization of the State: 3.4%. However, the latter number understates the amount that went into “institutional strengthening” and its increasing importance over time. Adding up the institutional strengthening components of loans shows that modernization of the state operations rose to a cumulative percentage of 6%. Over time there was a rising proportion of approvals: it reached 85% of the approvals in 2004.³²
- 2.11 The above discussion focused on the importance of the three strategic areas from the Bank’s perspective. However, importance needs also to be judged from the country’s perspective. The disbursements of four projects show that importance in terms of budget outlays at the program levels according to the country’s budget documents. The central line of activity of the Bank was around two back-to-back projects, covering 1994-2006, with the national fund for regional development, FNDR (CH0004, 1994; CH0161, 2000). These represented 36% of approvals but 11% of FNDR’s annual expenditure. The operation CH0032 approved in 1993 included the Improvement of Neighbourhoods (managed by the Interior Ministry) and Progressive Housing (managed by the Ministry of Housing) programs of which that IDB financed 5% and 4%, respectively. The Safer Chile program (CH0178) approved in 2003 has financed 12% of the country’s program.³³ These figures also illustrate that the Bank’s monitoring and evaluation system that only considers IDB’s disbursement and for some activities also the *pari passu*, “the project”, is severely misplaced.
- 2.12 The coherence evaluative dimension invokes the full use of instruments and degree of coordination as inputs. The pattern of instrument use was characterized as the following. Of the approved US\$1.2 billion consisting of 177 individual operations, the dollar approval was distributed as follows: (i) public: 71.3%; (ii) private: 23.5% (the sum of PRI 19% plus IIC 4.5%); and (iii) technical assistance 5.2% (the sum of MIF 2.5% plus CTS 2.7%). There were differences over the country business cycle. For the 1996-1998 period operations were almost exclusively TCs; there were no public loans. For the period 1999-2004 there were both public and private loan operations and TCs. However, as the economy has recovered, the average size of public operations has fallen from an average of US\$120 million in 2000 to US\$3.3 million in 2004. Further, the aggregate total dollar value of public operations was less than the private sector operations’ portfolio.

The latter characteristic reflects a significant shift back towards non-reimbursable operations and private sector operations dominated portfolio as the economy recovered.

- 2.13 With respect to coordination with other official external actors no formal direct coordination between the Bank and other external official actors was encountered. However, it is important to note, *“The government has always been in the “drivers seat” in relation to external assistance, effectively coordinating different actors. These, in turn, have had very little direct influence in the design of the strategic development agenda.”*³⁴ Coordination by the country of external assistance actors could be considered a more optimal result when compared to direct coordination between external assistance actors.
- 2.14 In addition, the program reveals that preparation process of a country program matters. The workshop “Strengthening Civil and Private Organizations” spawned the “Advisor of Civil Society (CASC)” to continue civil society and state dialogue, which in turn led to IDB project “Program to Strengthen State and Civil Society Alliances” (CH0165) approved in 2000. It also led to greater participatory role of civil society in Bank operation’s design and execution. For example, in the operation Integrated Development of Indigenous Population (CH0164), approved in February 2001, its design phase included four workshops that lasted six months with active participation of indigenous communities. Two further examples where operations have participatory role in execution include: A Safer Chile (CH0178), approved in 2003, and the Program for Seniors (CHL1005) approved in 2004.
- 2.15 It may be useful to dwell more on the indigenous problem and the IDB operation (CH0164). The country’s return to democracy was accompanied by an increasing and increasingly violent protest by the country’s native population regarding their plight; particularly regarding property rights and the rights to land use. The government had reacted by: (i) invoking “law and order” (which led to condemnation by Human Right Watch and by the UN’s Special Rapporteur); (ii) attempting to change the Constitution (rejected twice by Parliament) in line with ILO’s Convention 169 on the rights of indigenous peoples; and (iii) implementing a geographically targeted mechanism to provide resources to the indigenous communities through a specially created public entity (*Corporación Nacional de Desarrollo Indígena-CONADI*); but all to no avail. In this potential quagmire entered the IDB. However, through an inclusive consultative process it appears the Bank’s intervention successfully diffused the situation in terms of the frequency and violence of the protests. The program that emerged was one that did not tackle the land issue or CONADI’s legitimacy or attempted incorporating the indigenous population into the market mechanism. Instead it created parallel executing units and a palitative program that emphasized “identity”, (bilingual education, indigenous culture, intercultural health, etc.) and, through courses, enhancing the cultural sensitivity of the officials in the relevant government entities.
- 2.16 Returning to the bottom-up approach the following was found. Firstly, there was little prediction error as the programmed and actual financial flows were similar if the Multi-Global Credit program (CH0157) with the country’s development bank, CORFO, is excluded.³⁵ The Credit Program, the fourth such program by BID in Chile, was approved relatively rapidly (less than five months), to comply with the government’s attempt to

reduce unemployment through increased credit to SMEs during the recession of 1999. However, it was not disbursed as expected and was cancelled in 2004. By 2002, the Bank's loans had become more expensive than alternative local sources for commercial banks as the economy began to recover, and as its market niche of leasing was eliminated as banks were allowed into the leasing market. Secondly, regarding projects' outputs³⁶, it is important to note that the Chilean portfolio has a higher percent of projects (16%) that have been restructured and/or reformulated than that expected given the time and cost of preparation of operations.³⁷ This feature suggests that the Bank's "cannon ball" conception of a project is increasingly *passé*.

C. Value of technical assistance

- 2.17 As mentioned in Chapter I, the value of technical assistance (TA), could be partially compensating for the additional cost of Bank's public loans. TA can be defined in terms of type of services or instruments. In terms of services, TA is drawing upon the Bank's in-house expertise either through the program of consultancy services or TA in kind that is embodied in project preparation and execution and in obtaining access to expert networks through the IDB. Financing, in turn, can be through the Bank's non-reimbursable MIF and AT stand-alone operations, where these are used mainly to finance the hiring of consultants.
- 2.18 However, the Bank is increasingly faced with the problem of demand and supply mismatch. The mismatch is due to Chile having increasingly high quality government officials and research institutions meanwhile the Bank is small, with limited in-house expertise in terms of both the number of experts and the number of specialties covered. A problem that is compounded by an inadequate institutionalised knowledge support system. Indicative of the mismatch is that the Bank's PSA program –supply of in-house expertise on demand at a price in the country– has been used only in four cases since its inception in June 2001. Regarding networks, it appears the direction of technical support is from Chile to other countries via the Bank. For example, stories abound regarding the utilization of Chilean consultants in replicating innovative projects in other Bank countries. The veracity of these stories is difficult to substantiate given the partial and fragmented data on consultants and the link of this data with project information in the Bank's data warehouse.
- 2.19 However, the above discussion may be too narrow a definition of technical assistance, hence one may underestimate the value of assistance provided directly by IDB staff. Interviews suggest that one of the IDB's roles is as an operational partner of the Budget Directorate of the Ministry of Finance. The Ministry of Finance "outsources" to the IDB some critical activities that either involves new areas of activity with multiple actors or activities in which there is no clear hierarchical institutional structure vs. the Ministry of Finance. In either case, where a third party involvement and the IDB stamp of approval is considered useful. The Bank's indigenous communities project of 2001 is a prime example of a politically charged area, with unsuccessful previous government interventions and where a third "neutral party's stamp" was critical in diffusing the situation and moving it towards a consensual solution. Examples where the Bank's role was in situations where there was a lack of clear hierarchical institutional structure, are the operations of Modernization of the

Comptroller's Office, approved in 2001 (CH0173), the Justice Administration Modernization Project, approved in 2005 (CHL1012)³⁸, Strengthening Parliamentary Functions (CHL1017), and Strengthening the National Civil Service Department (CHL1008), both approved in 2005.

- 2.20 Finally, an expected downside counterpart of homogenous policies is the lack of experimentation in resolving developmental problems. This does not hold for the Chilean program. The Chilean program is a breeding ground for innovative solutions (models of interventions) that have or could be, with modifications, copied by the Bank in other client countries, i.e. fulfilling the cross-fertilization role of the IDB. The following operations illustrate this feature of the program: (i) Chile's Pro-Youth program that has become a standard response by the Bank to youth unemployed problem in other borrowers; (ii) the creation of a private sector coordination organization, an initiative of COF; (iii) two PRI operations that reduced exchange rate risk of the borrowers by providing a guarantee (of part of principle and interest) for a local currency bond issue by borrowers to finance highways (these operations also received some good press)³⁹; (iv) a MIF operation with Chile's potable water regulator led to the experience being shared through a workshop *cum* seminar with members of the association of potable water regulators (ADRESA), in 2004; and (v) the Program for the Formation of Business Skills. However, compiling a complete list of which countries the operations were replicated and with what modifications encounters the problem that the Bank's does not have a fully functioning institutionalised integrated platform of lesson learnt from its operations. Further, this replication was carried out without an adequate evaluation of the programs.
- 2.21 Thus, the program's *relevance*, as judged primarily by the intersection set between development challenges of the country and those taken up in the country program was high. However, relevance judged with regard to the Bank's role as a source of external financing for the public and private sectors was low. The program's *coherence*, as judged by the degree of integration of the full range of instruments and coordination of Bank's actions, with those of other development actors was high regarding instrument use (if the non-use of policy based lending during the recession years is ignored) and low with respect to direct coordination. Finally, the value of technical assistance is positive, although not in the way commonly thought of i.e. in terms of sector expertise. However, even if relevance and coherence were perfect there remains the question of whether the Bank's services were provided to the country efficiently. This is the subject matter of the next two chapters.

III. EFFICIENCY OF PROGRAM OUTPUT DELIVERY, FIDUCIARY, EXECUTION AND LOW-EVALUABILITY RISKS

- 3.1 The purpose of this chapter is to present the evaluation's findings regarding the efficiency criterion of the evaluation, i.e. did the Bank deliver its promised outputs in a timely and problem-free fashion? This question requires determining the value for Chile and the opportunity cost for the Bank of the precautionary ring fence built individually around its operations to reduce fiduciary, execution, and low-evaluability risks.
- 3.2 The typical output delivery efficiency and risk measures used by OVE reveal that the country has one of the better performing portfolios amongst the Bank's clients. This assertion holds for the average values for most of the delivery, efficiency, fiduciary and execution risk dimensions' indicators. The exceptions are the *de facto* evaluability and cost, i.e. preparation-to-dollar approval and to a lesser extent in terms of the execution-to-dollar disbursed ratio indicators of the program. The program is one of the most expensive and least evaluable.⁴⁰
- 3.3 The better than average efficiency of delivery, fiduciary, and execution risk measures are congruent with Chile's high ranking in governance and GDP per capita indicators. Most of Chile's portfolio performance indicators are better than those predicted by the average relation between those indicators for all of the Bank's clients, GDP per capita and governance indicators. Further, there is no significant dispersion of individual project values from the country's mean values of the portfolio performance indicators.
- 3.4 However, the above discussion may be using the wrong benchmark, i.e. average Bank values. A more appropriate benchmark is the country's system. As suggested in Chapter I, the value of the Bank's precautionary ring fence may partially cover the cost margin of the Bank's public loans, i.e. have a positive net value added. Indeed, the precautionary ring fence is generally thought of as an important contribution –a positive net value added– of the Bank's development role. However, in the Chilean case the ring fence has become a transaction cost that no longer adds value to the country's systems: a negative net value added. Thus, the above-average performance says little regarding the value of the Bank's precautionary ring fence for Chile.
- 3.5 Chile's own budgetary, monitoring, evaluation and procurement systems have improved such that the Bank's system represents a duplication of activities.⁴¹ Further, the Bank applies its precautionary ring fence only to its own part of the overall program, even if the Bank's part is indistinguishable from the country's program in terms of the beneficiary selection criterion. This adds to the perception of hassle amongst government officials. This conclusion is supported by: (i) interviews with key Bank and country actors, the anecdotes and metaphors used by the interviewees, suggest that its value is generally negative; (ii) a detailed study of four operations carried out by Region I that also support the argument of negative value added; (iii) interviews with executing agencies that revealed that most of their time is spent on fulfilling IDB procedural demands. It has also been recognised by the Bank: "*En Chile no hay mayores inequidades en cuanto a la gestión financiera y su rendición de cuentas...*" "*Tampoco*

hay mayores inequidades en cuanto a los procedimientos de adquisiciones”, page 4. As a follow-up, the Bank is experimenting for a six-month period in using the country’s procurement system for a subset of operations⁴²

- 3.6 For the Bank, overseeing compliance with the precautionary ring fence has a high cost: the cost per dollar disbursed is one of the highest among the Bank’s clients. Further, interviews suggest that most of the effort by COF and executing units staff is spent on ensuring compliance with Bank’s precautionary ring fence procedures, consequently crowding out other activities. Effort is increased due to a high number of co-executors and their autonomous expenditure units (who provide the basic supporting information of procurement and disbursements). The Bank’s eleven public projects in 2004 had 38 co-executors, and given the country’s budgetary system, these in turn involved 185 expenditure units. Further, the exceedingly large number of transactions per person makes precautionary due diligence not only the almost exclusive activity of COF but of doubtful veracity. A casual look at the number of transactions per capita show a high degree of productivity of COF, but not necessarily from the customer’s perspective. The time taken and the unpredictability of that time from the customer’s point of view to obtain “non objection” are often mentioned in interviews with government officials. Unfortunately, the Bank’s memorandum recording system, IDBDocs, does not contain the documentary information required to compute the time taken each non objection. Therefore, this hypothesis cannot be tested numerically.
- 3.7 However, costs may be higher. The effort dedicated to ensure compliance with the precautionary ring fence comes at a cost of losing new business and measuring for results management. Two examples illustrate the loss of new business. Firstly, the MIF Labour Competence Certification (TC9808041) program led to a new legal framework governing certification; it also led to a loan of the World Bank.⁴³ Secondly, the Bank’s Modernization of Public Transport operation generated the *Plan Transantiago*, but the implementation of the public component of the plan was with the World Bank, (who offered as a sweetener a large TC) and the private component was without PRI.⁴⁴ Other examples are from private sector toll road projects such as the Chillan-Colliuli and the Santiago-Talca toll roads that were considered by PRI and that received eligibility classifications. However, the potential operations obtained better conditions with commercial banks. These examples illustrate that PRI operations not only suffered from a restricted set of eligible projects but also that their services were provided at non-competitive costs (including transaction costs: legal, environmental requirements, economic and more recently *ex post* analysis), that entered at a too late stage of a financing packages and that were subject to inflexibility in local currency options. Many of these transaction costs are absorbed internally and not passed through by other multilaterals like IFC and FMO, thus reducing PRI’s competitiveness as it faces an uneven playing field.
- 3.8 Another cost is the crowding out of effort dedicated to measuring development effectiveness. In fact the Chilean program is amongst the poorest programs in terms of *de facto* evaluability, i.e. in terms of metrics with baselines and current values for outcomes.⁴⁵ The cost of non-measurement of development outcomes implies that neither lesson learning, accountability or managing for results agendas of the Bank can be

effectively carried out. Significantly lower evaluability of the development effectiveness of the country program is incongruent with *a priori* expectations and the Bank's maxim of managing for results. There are practically no projects, as self-reported by the Bank, that have outcome indicators with their baselines, targets, and current values. This characteristic of the program is a puzzle because of the following reasons.

- 3.9 Firstly, the country has an advanced monitoring and evaluation system.⁴⁶ Since 1994 the country has been implementing and refining a system of performance indicators and evaluation of public programs. In 1997 the country started a program of *ex post* evaluation. Both performance monitoring and *ex post* evaluation are responsibilities of the Directorate of Budget of the Ministry of Finance. The relevant line ministries examine the recommendations made by a group of external evaluators and must agree with the Ministry of Finance on a timetable to incorporate the suggestions that have been mutually accepted. The evaluations and timetables are sent to the Congress and are available to the public.
- 3.10 Secondly, even though Bank has dedicated an enormous effort in evaluations, it has failed to include development effects in its evaluation reports. Since at least 1997 Bank documents have exhorted that its evaluative reports contain information on outcomes. All 12 closed public operations (10 that had been approved during 1990-1994) have Project Completion Reports (PCRs), and two open operations have midterm evaluations. Of the closed MIF operations, 10 operations have PCRs or external evaluations. All projects that were active after 1997 have Project Performance Monitoring Reports (PPMRs) every six months. Practically none of the PCRs have *naïve* or impact evaluations of outcomes nor do the PPMRs have outcome data that could be used for such evaluations.⁴⁷ Nonetheless, these reports do include a four-way classification of the probability of achieving development objects that, in the Chilean case, is expected to be 95% probable or highly probable; classifications not, as a norm, based on any empirical evidence.
- 3.11 Numbers of not mutually exclusive arguments can be advanced to account for this low-evaluability finding. Firstly, efforts made by COF to comply with Bank's precautionary procedures crowd out resources for measuring and evaluating development results. Also, returns to effort dedicated to the development effectiveness measurement are low because the information is rarely asked for and is difficult to report routinely into the Bank's six-month project reporting system. Interviews with project implementation units reveal that the Bank rarely asks for this information. Secondly, the Bank approves operations without an adequate results framework, specific resources identified and assigned, defined evaluative question(s) and associated methodology, an assignation of responsibility for the data collection and evaluative task; all compounded by the absence of the results agenda in the contract governing the project. Thirdly, just like the Bank's precautionary ring fence, the Bank's monitoring and evaluation system is disconnected from the country's system. Fourthly, expertise in statistics and its application to evaluation appears to be missing throughout the project cycle. Most of these points could be levied against most of the country programs; however, in the Chilean case the Bank's system is markedly worse relative to the country's system.

- 3.12 The high cost of preparation can be attributed to the small dollar size of the individual loans, the high number of non-reimbursable operations, and the role played by Bank staff in coordinating local actors. The high disbursement cost can also be partly attributed to the small size of the operations, which exclude obtaining economies of scale.
- 3.13 Thus, the Bank's self-imposed rules and procedures applied homogeneously between its clients have resulted in an inefficient delivery mechanism for the Chilean case. This issue is reconsidered in the next chapter from the more comprehensive approach defined by the Paris Declaration of Aid Effectiveness.

IV. AID EFFECTIVENESS

- 4.1 This Chapter briefly presents the findings on the aid effectiveness criteria. The Paris Declaration's criteria on aid effectiveness commit over 90 countries and 30 development assistance agencies, including the Bank, to strengthen ownership, alignment, harmonization, results management and mutual accountability. In 2005 OECD/DAC agreed on assessment criteria, methodology, and definitions of 12 indicators. The first round of monitoring is to take place in 2006. In principle this framework is applicable to all ODA eligible countries. This includes middle-income countries like Chile.
- 4.2 Note that many of the aid effectiveness criteria and their empirical counterparts depend on Bank-wide practices. Hence the exercise undertaken is not so much to evaluate the past Chilean program, but to determine the challenge facing the Bank. In addition, some of the evaluative criteria recommending empirical counterparts are not yet available.⁴⁸ The lack of data also accounts for the failure of this report to take into consideration cross-client comparisons. Taking note of these limitations, the following holds for the five evaluative criteria of aid effectiveness.
- 4.3 Firstly, in terms of *ownership* the program scores high. This criteria attempts to capture the extent that partner countries have country-specific development targets with holistic, balanced and well sequenced strategy, a capacity and resources for implementation, the institutionalised participation of national stakeholders in strategy formulation and implementation. The Chilean government has a strong inter-ministerial coordination mechanism at the policy level. It involves stakeholders in systematic dialogue on strategy formulation and implementation, through permanent mechanisms-institutions including private-public mechanisms. Parliament is routinely involved in strategy formulation and in implementation through different phases of the budget discussion. The private sector provides systematic feedback to the government on strategy formulation and implementation through representative umbrella organizations. The country determines the relation with and coordinates with official external actors.
- 4.4 Secondly, in terms of *alignment* the program does not do so well. The country has procurement and financial management systems that follow broadly accepted good practices. The Bank, however, does not use these systems: the percent of financial flows that uses the country's systems is zero. The Bank does not avoid using parallel implementation structures: the program's projects often have project implementation units. Nonetheless, the program does well for the indicators like: (i) high predictability of aid; (ii) aid flows that are aligned on national priorities (as measured by the percent of flows to the government that are reported in the country's budget which in Chile is 100%); and (iii) the percent of flows that are untied (untied flows are practically 100%).
- 4.5 Thirdly, the program does not do so well in terms of the *harmonization* criterion. The main indicator for this criterion is the use of common arrangements i.e. the percent of aid provided as program based. This is zero percent in the Chilean program.

- 4.6 Fourthly, regarding the *managing for results* criterion the country does very well but the Bank does not. The country has a functioning monitoring performance system to assess progress on public programs and the public institutions in charge of the programs. The country also has a system that contains a number of instruments to evaluate public programs. Both systems feed into the country budgetary process. Both are available to the public and many are subject to non-government panel of experts. However, as showed in the previous chapter, the Bank does very badly, the Bank's managing for results agenda remains a quondam.
- 4.7 Finally, regarding the *mutual accountability* criterion, the program does not score high as the mutual assessments of progress in implementing agreed commitments is not the norm in the Bank. The Bank's six monthly project performance monitoring reports are not routinely shared with the country authorities, nor is its annual portfolio performance report. However, its Project Completion Reports are shared with and contain a section written by the Bank's country counterpart. The counterpart is the line ministry, not the Budget Directorate that is formally in charge of monitoring and evaluation.
- 4.8 Judging the Chilean country program with respect to the benchmarks of the Paris Aid Effectiveness criteria, it reveals how far are the Bank's practices from those it has committed itself to implement. The gap between practice and desired practice derived from the Aid Effectiveness agenda is compounded by the lack of an operational plan and an operational data collection system. There is, thus, a danger that this commitment may remain at the rhetoric level. However, whatever is the level of the effectiveness of aid delivery, in the final analysis what matters is the development effectiveness of the program. Development is after all the *raison d'être* of the Bank. The development effectiveness of the country program is the issue taken up in the next chapter.

V. PROGRAM'S OUTCOMES: DEVELOPMENT EFFECTIVENESS

- 5.1 The purpose of this chapter is to present the evaluation's findings regarding the development effectiveness of the country program. That is, present the information that contributes to the efficacy criterion of the evaluation: did the program produce the intended development outcomes for the country?
- 5.2 "The program" can be approached two ways: top-down and bottom-up. The top down approach essentially takes the strategic goals set out in the Country Strategy documents while the bottom up approach takes the totality of the development goals set out in the individual projects. However, neither approach is straightforward to apply, as the numerical statements of intent, "the targets", are usually absent. Thus, the main purpose of this chapter namely answering the question "did the program produce the intended development outcomes for the country?" cannot generally be carried out quantitatively.
- 5.3 An alternative approach would be to calculate the change over time of the development indicators, i.e. values of baseline, on closure, and current status. The change over time of the indicator reveals if the problem being tackled has been ameliorated, remained unchanged or worsened. However, even this limited approach encounters problems. Firstly, not only are metrics generally absent, but also even when they exist in the loan document, they are often dropped in the implementation stage, new ones introduced (often outputs) but their evolution over time is not generally picked up in the Bank's reporting system. Secondly, even if the minimum information was available, unless an attempt is made to causally connect empirically the Bank's program's activities to the evolution of expected development outcomes, any narrative of the Bank's (or the program's it is supporting) contribution would be empirically anchorless, hence of unsure veracity.
- 5.4 However, the country's information and data systems provide a rich database that is sufficient to fill in the information gap encountered in the Bank's system. The information gap was filled by both aggregate national data and data that distinguishes between beneficiaries from non-beneficiaries for a number of programs. The former allows an empirically-based judgment of the change in the gravity of the problems being tackled while the latter allows a *naïve* evaluation of the results, i.e. the change of the indicator for the beneficiaries of the intervention. It allows the determination of the efficiency of the *de facto* targeting of the program.⁴⁹ It also allows the possibility of treatment (impact) effect evaluations.⁵⁰ These attempt to calculate the part of the observed changes in development outcomes that are attributable to the intervention, hence are a better measure of the development effectiveness of a given program, unless it is asserted that there are no other factors other than the program that have influenced the outcomes of interest. Unless the Bank's project differs substantially either in terms of eligibility criteria or type of benefit from those of the county's program, the outcomes of interest are those produced by the country's program in which the IDB's project is embedded.
- 5.5 The high data availability in Chile facilitates filling in the information gap in IDB's monitoring and evaluation system. Armed with this information, from the top-down

perspective, the development challenges adopted by the country programs can be shown to have ameliorated over time. This assertion holds for most of the performance indicators of each of the three strategic goals: increasing competitiveness; improving welfare and reducing regional and social inequality; and modernising the State. The two significant indicators that show no improvement are household income inequality and regional income inequality.⁵¹ However, as mentioned in Chapter I the country's policy makers may be not only using temporal improvement in performance indicators but also OECD countries' values as benchmarks to determine future development challenges. In this case, many of the country's performance indicators lie in the lowest quintile of OECD countries: GDP per capita, productivity per worker, occupation ratio, health and education expenditure, infant mortality, life expectancy, expenditure on R&D, and is amongst the worst performers in terms of income inequality. However, Chile does relatively better for corporate and government ethics indexes, legal and judicial effectiveness, trade openness, and general government debt.⁵²

- 5.6 From the bottom-up perspective, the assertion of generally positive results also holds, although less uniformly, for the specific development objective indicators of the individual projects. Thus, the degrees of problems tackled individually by the Bank's operations have generally been ameliorated over time. For heuristic reasons this assertion is best illustrated by examples drawn at the thematic or at the project level.
- 5.7 Government policy has placed both STI and ITC amongst its priority areas. A large number of IDB operations were in the thematic area of Science, Technology and Innovation, a subset of activities of the competitiveness strategic area. The main program for STI was approved in 2000 (CH0160) after a 4-year hiatus of the Bank in this area (the previous program CH0022 approved in 1992 had been cancelled). This has been the Bank's flagship project in this area. This operation is an exception as it records a large number of activities, outputs, and outcomes plus a number of specialised surveys and evaluations: a description of which would absorb many pages to fully enumerate.⁵³ The main program for the digital agenda, that grew out of CH0160, was approved in 2004 (CHL1002). However, both operations were accompanied by a host of TCs directed at both public and private entities; particularly SMEs. The country has made important strides in this area. Most indicators show an improvement over time. Looking in greater detail at two of the components (related to the components credit for firms and grants for research) of the project CH0160, both naïve and impact evaluations reveal generally positive results, and generally reveal a similar direction of the effects. However, success was not achieved in terms of increased productivity, the relevance of training human resource innovation, and the relevance of innovative processes introduced. An interesting exception is exports, where the naïve evaluation shows a negative effect that contrasts with the treatment effect that shows a positive effect.⁵⁴
- 5.8 However, challenges remain.⁵⁵ Chile's spending on R&D is low in comparison with OECD countries although in the middle of the regional comparators (higher than Mexico but lower than Brazil). This assertion holds even when the sectoral composition of GDP is taken into account. The share of personnel in total employment is comparatively low and in contrast to OECD countries where most R&D personnel are located mainly in business (in Chile R&D personnel are still mainly located in public research institutions).

The output of innovation activity (as measured by patents and publications in scientific journals) is low, and lower than that implied by the country's GDP per capita. However, Chile fares better in terms of ITC penetration relative to emerging OECD countries and Latin American comparators. Thus, Chile is relatively advanced in e-government with the use of Internet for tax filing, public procurement and other red tape.

- 5.9 According to the OECD, the issues are: (i) direct government support is delivered in a fragmented institutional setting; (ii) copy rights are poorly enforced, (iii) the seed and risk capital markets are underdeveloped; and (iv) there is a shortage of scientists and human capital, and the connection between research and industry remains weak. The country has begun to rethink its strategy (policies, instruments, and the institutional structure of delivery) in this area, partially in response to the expected increase in public financing due to the newly created 3-5% fee on the operating profits of large mining companies. The recent copper boom implies that the current administration's target of increasing public expenditure to 1% of GDP, level comparable to the OECD, may very well be feasible. Thus it is uncertain what will be IDB's contribution in this area in the future.
- 5.10 Government policy, since the country's return to democracy, has emphasized increasing decentralization within a unitary governance structure.⁵⁶ Three lines of action have been taken; (i) increase democracy (municipality mayors and councils were elected in 1992 but the government failed in the attempt to have regional governors elected); (ii) create regional institutionality and increase the proportion of public expenditure decided by the priorities of sub-regional governments; and (iii) increase the efficiency and transparency of sub-regional expenditure.
- 5.11 This is an area in which the Bank was also heavily involved.⁵⁷ The central line of activity was around two back-to-back projects, covering 1994-2006, with the national fund for regional development, FNDR (CH0004, 1994; CH0161, 2000). They both had "bricks and mortar" and institutional strengthening components. Their intermediate objectives were to deepen decentralization and increase its efficiency. Their development goals were to reduce regional inequality and to improve welfare.
- 5.12 As seen previously in Chapter II these operations financed about 11% of the country program. Further, they did not finance different outputs or have a targeting mechanism distinct from the country's program, this making what were the IDB's financed "outputs" and targeting an irrelevant accounting exercise. The country's program financed construction-restoration-amplification works mainly in the following areas: education (34%), transportation (24%) and health (9%).
- 5.13 The institutional strengthening components focused on Regional Governments (GOREs) and the central government entities, SUBDERE and MEDIPLAN. GOREs are the 13 non-elected regional authorities that intermediate between the central government and municipalities and whose budget is mainly obtained from FNDR. The second operation attempted to change the transfer modality by shifting the institutional strengthening objective from the previous operation's training to placing the burden on GOREs to demand investments within their Regional Development Strategies, Multi-year Investment Plans and Framework Agreements.

- 5.14 Most of the output indicators' targets were met and surpassed. This holds for the target: all GOREs have Multi-year Investment plans; at least 30% of investment resources of the multi-year plans have Framework Agreements; at least 70% of investments are made based on the Regional Development strategies; at least 50% of investment is decided by the regional government. There were a number of failures: the percent of the number of projects approved at first presentation (in 2004 the number was 3% compared to the target of 45%); targeting based on two indicators, quality of portfolio and size of portfolio relative to budget. However, only the former was included. These unsatisfactory results indicate that the GOREs institutional strengthening objective of management, coordination and public accountability of regional investments remains elusive.
- 5.15 The evolution of access and development indicators of a number of sub-programs in this strategic area generally shows an improvement.⁵⁸ Four output indicators show significant improvement: investment-decisions made by the regions have increased both in real terms and as a percent of total investment, the decentralization maturity index, and real per capita social investment. Welfare indicators like poverty rates and real per capita household income also show improvement. However, electricity, sewerage, and potable water access figures do not show a significant increase. Regional income inequality and national income inequality have remained unchanged. Note that FNDR did not have an explicit poverty-targeting rule, and the targeting rule set by the Bank, despite the operations promise of targeting to obtain lower inequality and improve welfare, did not either. Regional targeting was poor (the level of under coverage and leakage) if only the poverty criterion is considered.⁵⁹ In fact, in 2005 a legal change set an explicit transfer rule that included poverty as one of the three criteria for transfer allocations. In a comparison between naïve and impact effects, while the former suggests that the program did not reduce indigence and poverty rates, the impact evaluation reveals that it did so.⁶⁰ The results show that the program had positive development effects, however, the institutionality of decentralisations remains a challenge.
- 5.16 A specific project in this area was the operation CH0032. The project had two components: improvement of neighbourhoods and progressive housing. The country's progressive housing program had begun in 1991 to complement the country's existing social housing program Basic Housing. The eligibility requirements of Basic Housing were considered to exclude the poorer segment of households. The ProgressiveHousing Program was innovative at its time of conception in that it was demand rather than supply led and it attempted to involve beneficiaries in their housing solutions and the private sector in the provision of the solutions. The program offered a subsidy and a mortgage as complements to household's savings for two stage housing solutions: (i) minimum unit with connections to basic services; and (ii) extensions to the minimum unit.
- 5.17 The IDB's project, approved in August 1994, restricted itself to financing only the first stage solution. Similar to the FNDR projects discussed previously, the IDB's project did not differ in terms of the outputs financed or eligibility requirements from the country's program. Slow disbursement led to 80% of the US\$33 million of this component being cancelled in 1998. The number of housing solutions provided by the country's program between 1993 and 1997, the period of the Bank operation, was 11,914, however, from

1990 to 2005, the program provided 109,126 solutions. The Progressive Housing Program was not well targeted.⁶¹ However, an evaluation of the program reveals the program had significant positive effects on reducing unmet basic needs and enhancing the quality of housing but not in reducing overcrowding. However, no significant effect was encountered on poverty reduction, a fall in under nourishment, and an increase in school attendance.⁶² This is a story of positive development effects of a country program but where IDB's bureaucratic requirements prevented its project being in harmony with the country's program.

- 5.18 Another example in this area is the Bank's Safer Chile program. Crime has consistently been identified as one of the four main problems in opinion polls. Citizens' expectations of becoming a victim of a crime have increased. The number of government plans and initiatives has grown exponentially since the mid-1990s.⁶³ Government policy had a three-pronged basis: (i) increase the number of police (Plan Precinct) and prisons; (ii) reform the Penal Code and strengthen security institutions; and (iii) initiate local community-based crime preventive measures. The government of President Lagos placed this issue as a main policy concern. In 2000 it announced the program Safer Commune and in 2001, it began in 12 communes.
- 5.19 The Bank's response in 2003 was an operation Safer Chile that financed the Safer Municipality and Safer Neighbourhood programs plus publicity campaigns and improvement in the police-communities nexus (CH0178).⁶⁴ The Safer Commune promotes the formation of local security councils headed by the municipality's mayor. The councils consist of representatives of security organizations and local community organizations. They prepare security plans and propose projects to be financed. The Safer Neighbourhood program organization is similar but targeted to areas dominated with drug trafficking. These programs operate through a competitive fund managed by the Interior Ministry that municipalities and neighbourhoods can bid to.
- 5.20 Similar to the two projects discussed previously, this project does not differ from the country's program either in terms of the outputs financed or in terms of the targeting mechanism. Since its inception, the program has spent US\$23.6 million to finance projects in a total of 54 communes. IDB's financing was 12% of the program's expenditure for the years 2003 to 2005. The typical outputs financed by this program included: (i) infrastructure (including parks, sport facilities, and street lightening); and (ii) neighbourhood and family support (including visits by social workers, local associations and workshops). Between 2001 and 2004 the number of individual projects financed were 2,704. These individual projects were provided within a relatively good targeting mechanism.
- 5.21 The program's objective was originally to reduce crime rates, but as crime rates continued to grow the objective was replaced with a less ambitious one: reduce the growth of crime.⁶⁵ The program has failed for some commentators. These commentators advocate instead of the preventative measures like Safer Commune, a policy of harsher sentences (including a version of "three strikes out") and an increased number of prisons. The evidence offered is that the exponential increase in policy measures is correlated with an exponential increase in crime rates and that the increase in crime rates (except for

homicides) has been higher in the communes that benefited from the program's projects compared with the increases in crime in communes that did not receive any benefit from the program. Such a comparison is inappropriate. It is true that crime rates have increased (except recently homicide rates), and they have increased more in beneficiary municipalities relative to non-beneficiary municipalities. However, an evaluation of the effect of the program that takes into consideration the socio-demographic features of the communes shows that the program had a positive effect (reduction in crime rates) with respect to the counterfactual of no program. These results suggest the program is having positive impacts.

- 5.22 An interesting example in this area of potentially beneficial welfare effects of a regional targeted program using the private sector, was the Bank's Rural Telecommunications program by PRI (CH0156, 1999). The intermediate objective was to increase access to fixed telephone line services in rural south Chile and with the development objective of reducing poverty. The Government had set up a fund to give concessions with the possibility of subsidies to private companies. A Canadian company, essentially a manufacturer of telecommunication equipment, applied to the fund, and won a number of concessions for the south of the country. It estimated such high returns that it did not request any subsidy. With over 75% of the investment already carried out, in 1999 it entered into an operation with PRI. PRI bought a minority holding of the company in Chile. Hopes were high; the economic rate of return expected calculated by PRI was 65%. However, the fixed line market was undercut by a new technology and new policy by the government. A few years after the operation began, the investment's expected returns were undercut when the government set geographical coverage conditions as part of cell phone concessions. The company's sales and cash flow fell precipitously to those originally estimated. The operation had to be restructured and no *ex post* return rates have been calculated.
- 5.23 The above narratives reveal not only positive development effects but also "lost opportunities" by the Bank in using the country's systems to demonstrate the development effectiveness of its operations and the programs in which its projects are embedded. However, these are not only stories from the long past. For example it was noted in Chapter II that the Bank's Indigenous Program (CH0164, approved in 2001) had successfully ameliorated the tensions between the indigenous people and the government. The operation also contributed to a well-designed (questionnaire and sample size) survey carried out in the beginning of the program. In its preparation for a second phase, however, it has abandoned the idea of a follow-up survey that would have created a rich panel data that could have been used for a quality evaluation as an input for the design of the follow-up of this multiphase operation. Without that data, it cannot be determined if the program was achieving its objective of improving the living conditions of the beneficiaries. Instead the program carried out an opinion survey of key actors amongst the indigenous population, as part of two participatory evaluations.⁶⁶ Another example of lost opportunity is the project Urban Renewal and Development of Valparaiso approved in December 2005. Based on a face value review of the logical framework, which however does not reflect all the objectives outlined in the text, the project had a fairly complete *ex ante* evaluability index at the approval stage: a number of expected outcomes, their metrics, their baselines, their milestones and their targets are identified.

Eight months after approval there is no mechanism set up by the Bank to capture progress on outcomes.⁶⁷ These examples are invoked to illustrate the systemic failure of the Bank, not to show the shortcomings of specific individual operations.

- 5.24 The Bank has been ineffective in implementing its development effectiveness and managing for results agendas. However, a little effort, using the country's information systems, shows important and significant development effects of the programs in which the Bank has been involved. The Bank is clearly underselling itself regarding its value added.

VI. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

- 6.1 This country evaluation covered two country programs: from 1996 to 2000 to 2005. The evaluation found that the country and the Bank have successfully worked together to achieve a program with a high level of country ownership and one that contributed to the Bank's cross-fertilization role amongst its clients. However, success was constrained by the Bank's business model of applying policies and procedures equally amongst its clients. This feature rests uncomfortably with Chile's outlier status of most performance indicators: economic, political, social and access to private international capital markets.
- 6.2 The result of a "one suit fits all" business approach is that the Bank has become increasingly uncompetitive in Chile hence irrelevant as a major source of external financing. The Bank is no longer a cheaper source of external financing for the public sector. Further, the value of other services offered by the Bank to cover the cost differential has been eroded over time. Firstly, the precautionary ring fences built around its individual operations have remained transaction costs –a hassle factor– that add to the financial costs, but no longer add net value to the country's own fiduciary and execution risk prevention mechanisms. Secondly, the option value of access to the Bank as a lender of last resort in times of reduced access to international markets, has fallen over time as the country's growth downside risk has fallen. Thirdly, the technical assistance service the Bank offers faced an increased mismatch between the demand by an increasingly sophisticated economy like that of Chile and the supply of in-house expertise of a small bank like the IDB. Nonetheless, Bank's officials have played a key role in coordinating domestic actors to obtain consensual technical solutions in areas where there is either no clear institutional hierarchy relative to the Ministry of Finance, or in areas where a third party actor providing an international stamp of approval helps in resolving policy stalemates.
- 6.3 Nonetheless, within a severely reduced actual to potential frontier imposed by Bank-wide rules and practices, the program can be judged as relatively successful when the four core performance dimensions of the results of the Bank's program are invoked. Firstly, the program's *relevance*, as judged primarily by the intersection set between development challenges of the country and those taken up in the country program, was high as there was a high intersection set. Relevance can also be judged with regard to the Bank's role as a source of external financing for the public and private sectors. It is not relevant. A low level of borrowing and a high level of cancellations have characterized the program. The country has reduced its debt with the IDB in greater proportion than the reduction in overall public debt ratio throughout the different phases of its business cycle. Leaving aside the recession period, operations have been dominated by private sector and technical assistance operations. Public sector operation average size, that was already small, has fallen perceptibly: by 2005 it was only US\$7 million compared to the Bank average of US\$75 million. The smallness of the projects partly account for the high cost (one of the costlier amongst the clients) to the Bank of the Chilean program. Relevance can also be judged with respect to the degree of country ownership of the program. The country has been in the driver's seat of the program reflecting the determinant-

coordinating role of the country's Ministry of Finance in the relation with the Bank and other external assistance actors. Thus, there has been a laudable level of program ownership by the country.

- 6.4 Secondly, *coherence*, as judged by the degree of integration of the full range of instruments and coordination of Bank's actions with those of other development actors, was high regarding instrument use. However, the higher than expected percentage of the portfolio's projects that were partially or wholly cancelled or restructured reinforces the argument that "project" approach embodied in most of the Bank's instruments may have become *passé* in Chile as a norm rather than as an exception. OVE found no information regarding the direct coordination by the Bank with other development actors. This is a positive feature as it could be argued that the coordinating role of the Ministry of Finance obviates the need for direct coordination by the Bank with other external development actors.
- 6.5 Thirdly, *efficiency*, as judged by the degree that the program outputs were delivered in a timely and problem free fashion, was high. However, this judgment is made with respect to Bank averages, a more relevant benchmark is the country's system in which case the evaluative finding is that the Bank's precautionary risk fence was an unnecessary transaction cost to the country and the Bank but without any value added. For the Bank, the costs of preparation-to-dollar approved and to a lesser extent the cost of execution-to-dollar disbursed are amongst the highest of its country programs.
- 6.6 Fourthly, *efficacy*, as judged by the degree that the intended development outcomes were achieved, was high. Achievements of development intent in the limited sense that the development problems tackled by the program and the individual projects have been ameliorated over time. Further, for the Bank the program also had a high value added. The program contributed to the Bank's cross-fertilization role amongst its clients. The program has bred innovative models of intervention at the project level that the Bank has copied in some of the other client countries and some have become the Bank's standard response to given development problems. These findings are not based on the Bank's monitoring and evaluation system. Surprisingly, the development effectiveness of Bank's operations cannot be judged by using the information it gathers in its monitoring and evaluation system. This is a surprise given the high quality of the country's own monitoring and evaluation system that produces both performance and evaluative information. The cost of this information gap is the Bank's ability in fulfilling its agendas of lesson learning, accountability and managing for results is severely constrained. This appears to be an outcome of a disconnection between the Bank's and the country's systems. Filling the information gap shows not only that it is possible to do so with little effort but also that the information obtained reveals generally positive development effects.
- 6.7 Finally, with regard to aid effectiveness evaluative criteria of the Paris Declaration, the following was found: (i) the program does very well in terms of the *ownership* criteria, (ii) Bank-wide policies and procedures imply that the program generally faces enormous challenges with respect to the other criteria of: *alignment, harmonization, managing for results and mutual accountability*.

- 6.8 The new country strategy is being prepared with a small stock (as of December 2005) of 17 loans valued at US\$0.5 billion and a stock of 24 TCs valued at US\$15 million. Typically as a Country Strategy is being prepared there is an increase in the number of loans in the Bank's pipeline; in the Chilean case, as of June 2006, there are only five proposed operations valued at US\$156.4 million. Of the five proposed operations two are PRI operations valued at US\$91 million.
- 6.9 The new program is being prepared (and will be implemented) as the country has emerged from a recession and has retaken a high growth-falling debt path; characteristics reminiscent of the 1996 programming cycle. Although history does not necessarily repeat itself, in that cycle the country cancelled many operations, prepaid others and had practically zero borrowing until the recession of 1999. However, in contrast to the 1996-2000 period, the country's vulnerability indicators all show significant improvements. Further, the recent copper price boom has allowed the country to replenish its copper fund, and the country is, in addition to cancelling Hacienda's debt with the Central Bank, and sterilizing further "extra" revenue into an offshore fund to be drawn on in case of a future downturn.

B. Recommendations

- 6.10 The services offered to Chile by the Bank have become increasingly uncompetitive regarding public operations and in an undersupply of private sector operations relative to business opportunities. The Bank's business model is outdated and overburdened with unnecessary bureaucracy that has little value added in the Chilean case. Nonetheless, possible changes by the Bank under the umbrella of "realignment" may allow the Bank to redefine its service mode. If Chile is a harbinger of similar business model problems with the Bank's other clients, there is some urgency for action. Although a comprehensive detailed set of recommendations for change is beyond the scope of this report, in line towards a new business model the following recommendations can be made:
- 6.11 Firstly, initiate a pro-active search for development business opportunities and make IDB loans more attractive. A pro-active search for business may require flexibility in the location of front office and back office activities between headquarters and COF, particularly, but not exclusively, for private sector operations. The private sector emphasis made reflects that the probability of significantly increasing public sector operations may be limited. However, the limit may be partially overcome to the extent that the future program attempts to exploit synergy effects by offering a coordinated mix of instruments for development problems in which the solutions involve both public and private actors. However, this will require effective intra-bank coordination between the different lending arms of the Bank, that has proven elusive so far. Thus it would be useful that coming country strategy sets out the "what, where, when and how" the distinct arms of the Bank will offer integrated services to the country. Such actions could enhance the coherence of the program. To make IDB loans more attractive, one option is to eliminate exchange rate risk for Chile by issuing peso-denominated debt in the local market and to support issuing Chilean peso-denominated bonds in the international market (although it should be noted that there is low probability of Chilean international debt issues). The options should be explored for both public and private sectors, where

for the private sector could also be explored the marketing of cross-border debt instruments for intra-regional investors in activities like energy, pipelines, capital markets including intra-regional direct foreign investment.. Another option is to eliminate unnecessary transaction costs for both the public and private sector arms of the Bank. This can be achieved by replacing most components of the Bank's precautionary ring fence by the country's systems or seek selective exemptions from the Bank's policies and regulations. In practice, regarding public sector operations, this will require moving beyond the traditional project approach towards a generalized budgetary and sector budgetary support, options that would also reduce transaction costs. An operational twist would be to learn from and use Chile's competitive fund approach for many public financed programs. Such steps would go a long way towards fulfilling the harmonization and alignment aid effectiveness agendas. For the private sector operations, the Bank should consider setting up a financing mechanism from which the private sector lending arms could draw on to partially or wholly absorb transaction cost and to enter into potential deals at a much earlier stage than is currently feasible. Such actions would contribute towards increasing the efficiency of the program.

- 6.12 Secondly, measure the development effectiveness of the programs and provide a platform for lessons learnt. In practice this will require connecting the outcome performance indicators of existing and new operations, and the public programmes in which IDB's operations are embedded in, to the country's information gathering and evaluation system not only to generate information for process evaluations but also for impact (treatment effect) evaluations. An evaluation work plan agreed with the Budget Directorate of the Ministry Finance would be a desirable feature of the next country strategy, as would be an in-house evaluative expertise. The latter point indicates that the new business model will require a different skill mix to that which exists today in the Bank. The experience gained by the Bank in implementing the plan would provide valuable lessons for the Bank's own managing for results agenda not just for accountability purpose. Maximizing the knowledge gained in the Chilean program would require the provision of a regional platform for Chile (and other clients) to export innovative solutions to given problems. This action would make explicit and efficient the Bank's cross-client fertilization role and contribute to the Bank's learning and lesson found agenda. Such a platform should be in the context of an institutionalized stock of knowledge of what works, what does not, and why drawing on the Bank's experience from its operations amongst its clients. Such an initiative would also move the Bank towards a "knowledge Bank". Such actions will move the Bank significantly towards the managing for results and development effectiveness agendas, hence improve the efficacy of the program.
- 6.13 Finally, the Bank should engage the authorities on the desirability of focusing its strategy in the areas of regional and household inequality in opportunities and capabilities and poverty. Less than satisfactory results of past policies in the area of inequality suggests that a new generation of policies and programs needs to be developed. Success in poverty reduction of past policies, suggests that a new generation of poverty reduction policies geared towards a smaller targeted population needs to be developed. These new solutions may very well require a judicious mix of private and public actors with an increase in private sector's role compared to existing programs. The possibility of participating in the designs of this new generation of programs represents an important opportunity for the

Bank, not only to support the country in the search of new solutions but also to build institutional knowledge of new solutions.

- 6.14 These recommendations are neither budget neutral nor straightforward to implement but involve up-front transitory costs associated with experimenting with a new business service model. However, the potential returns of implementing the recommendations are high: not only for the IDB's relation with Chile but also from the potential replication in other similar clients. The adoption of the country's fiduciary and execution systems recommended above will free both financial and human resources for positive value added tasks. Chile's program already is one with a history where the Bank has experimented with new operations, that have been copied in other client-countries. The country is, thus, well placed for experimenting with systemic changes in the Bank's service model. The question is whether the Bank is so well prepared.

PEOPLE INTERVIEWED FOR CPE PREPARATION			
Name	Position	Project	Subject
Country			
Nemesio Arancibia	Chief, Investment Department, SUBDERE	CH0161	Efficiency & Management Regional Investment
Ana María Arteaga	Programa Origenes (Evaluation)	CH0164	Integrated Development Indigenous Communities
José Miguel Benavente	Consultant, Universidad de Chile	CH0022	Labor Training Program
Carlos Bonet*	Clasificadora de Riesgos Feller Rate		PRI operations
Ernesto Castillo	Working experience with CASEN		General
Pablo Coloma	INDAP		Microfinance
Dante Contreras	Director, Economics Dpt., Universidad de Chile		General
Vittorio Corbo	President, Banco Central		General
Liliana Cortés	Manager, Development Area, Fondo Esperanza		Microfinance
Jaime Crispi	Studies		General
Beltrán de Ramón	Manager, Local Financial Markets, Banco Central		General
Isabel del Campo	Manager, Fundación Trabajo para un Hermano		Microfinance
Alvaro Espinoza	Ministerio del Interior	CH0178	Innovation Program for a safer Chile
Enrique Elgueta*	General Manager, Constructora BELFI		PRI operations
Ramón Figueroa	CORFO	CH0157	Multi-Global Credit program
Alejandro Foxley	Foreign Affairs Minister		General
Mauricio Gatica*	General Manager, Rutas del Pacífico		PRI operations
Marcela Guzman			General
María Teresa Hamuy	Chief, Evaluation Subdepartment, DIPRES		General
Consuelo Herreros	Social Responsibility Fondo Esperanza		Microfinance
Juan Claudio Higuera	Chief, Microenterprise Division, Oriencoop		Microfinance
Miguel Huaracán	Programa Origenes	CH0164	Integrated Development Indigenous Communities
Carolina Hurtado	Municipal Information	CH0161	Efficiency & Management Regional Investment
María Isabel Infante	General Manager, FINAM		Microfinance
José Miguel Insulza	Ex Minister of the Interior		General

PEOPLE INTERVIEWED FOR CPE PREPARATION			
Name	Position	Project	Subject
Luna Israel	Chief, Management Control Division, DIPRES, Ministerio de Hacienda		General
Esteban Jadresic	Chief of Operations, Banco Central		General
Felipe Jiménez	Municipal Finance Coordinator		General
Mauricio Jiménez	Evaluation and Monitoring Coordinator, MINTER	CH0178	Innovation Program for a Safer Chile
Mario Marcel	Director, DIPRES		General
Claudia Marró	Productive Development Advisor, BancoEstado		Microfinance
Leonardo Mena	Chief, Innovation Division, FONDEF	CH0160	Technology Innovation Program
Andrés Mitnik	Programa Origenes (Systems)	CH0164	Integrated Development Indigenous Communities
Angel Muriel*	Finance and Administration Manager, Rutas del Pacífico		PRI operations
María de la Luz Nieto	Advisor to Housing Minister	CH0032	Sites-Services and Neighborhoods Improvement Program
Cristian Palma	Manager, Financial Brokerage, CORFO	CH0157	Multi-Global Credit program
Cecilia Pereira	Statistics, FNDR	CH0161	Efficiency & Management Regional Investment
Raul Perry	Executive Director, Fundacion Contigo		Microfinance
Ricardo Raveau*	Manager, Empresa Portuaria de Mejillones		PRI operations
Alvaro Retamales	General Manager, Microenterprise, Bandesarrollo		Microfinance
Patricio Reyes	Deputy Manager, Financial Brokerage, CORFO	CH0157	Multiglobal Credit Program
Orieta Rojas	Chief, Citizenship Security Division, MINTER	CH0178	Innovation Program for a safer Chile
Diego Sabino*	General Manager, Concesionaria Costanera Norte		PRI operations
Klaus Schmidt-Hebbel	Economic Investigation Manager, Banco Central de Chile		General
Jaime Silva Arancibia	Chief, Housing Policy Division, Ministerio de Vivienda	CH0032	Sites-Services and Neighborhoods Improvement Program
Loreto Sole	Ministry of the Interior	CH0178	Innovation Program for a Safer Chile

PEOPLE INTERVIEWED FOR CPE PREPARATION			
Name	Position	Project	Subject
Jorge Taboada*	General Manager, Complejo Portuario de Mejillones		PRI operations
Juan Pablo Toro	Nacional Coordinator, Un Techo para Chile		Microfinance
Veronique Van Simaeys	Project Director	CII	Telephone conversation. She did not handle the component, but helped us find the people in charge of delivering the benefits
Rodrigo Valdés	Manager, Studies, Banco Central de Chile		General
Marcia Varela	Chief of Operations, FONDEF	CH0160	Technology Innovation Program
Gonzalo Vargas	Fundación Paz Ciudadana	CH0178	Innovation Program for a safer Chile
Javier Velásquez*	Concessions, MOP		PRI operations
Victor Vera	Chief, Microenterprise Area, BancoEstado		Microfinance
Diego Vidal	General Manager, Credicoop		Microfinance
Roberto Zaldívar*	General Manager, Banco Security ABN-AMRO		PRI operations
IDB			
Carmen Albertos	Project Team leader	CH0164	Integrated Development Indigenous Communities
Pedro Auger	Advisor to IDB Director		General
Philippe Birbent	PRI Specialist		PRI operations
Guillermo Collich	Project Team Leader	CH0157	Multi-Sector Credit Program
Gloria Coronel	Local specialist	CH0157	Multi-Sector Credit Program
Claudia de Colstoun	Ex Coordinator for Chile, OD1		General
Luis E. Echebarría	Representative in Chile		General
Alejandro Foxley	IDB Director		General
Cintia Guimaraes	Coordinator for Chile, OD1		General
Francisco Lois	Local Specialist		General
Beatriz Lopez	Project Team Leader	CH0178	Innovation Program for a Safer Chile
Francisco Mejia	Project Team Leader	CH0165	Strengthening Civil-State Relations
Edson Mori	PRI Specialist		
Germán Quintana	Ex IDB Director		General
Orlando Reos	Chief, SC1		General
Jorge Roldan	Chief IIC		IIC operations
Paola Robles	Local Specialist	CH0178	Innovation Program for a Safer Chile
Hernando Rodriguez	Local Specialist		General
Eduardo Rojas	Pr. Housing & Urban specialist	CH0032	Sites-Services and Neighbourhoods Improvement Program

PEOPLE INTERVIEWED FOR CPE PREPARATION

Name	Position	Project	Subject
Pablo Roldan	Project Team Leader	CH0161	Efficiency & Management Regional Investment
Silvia Sagari	Chief, FI1		General
Jaime Sujoy	Chief, OD1		General
Hans Shultz	Sr. Advisor PRI		PRI operations
Ichiro Toda	PRI Specialist		PRI operations
Juan Pablo Valenzuela	RE1 Consultant		

* These people were interviewed by the Private Sector Projects Evaluation Mission, in June 2004.

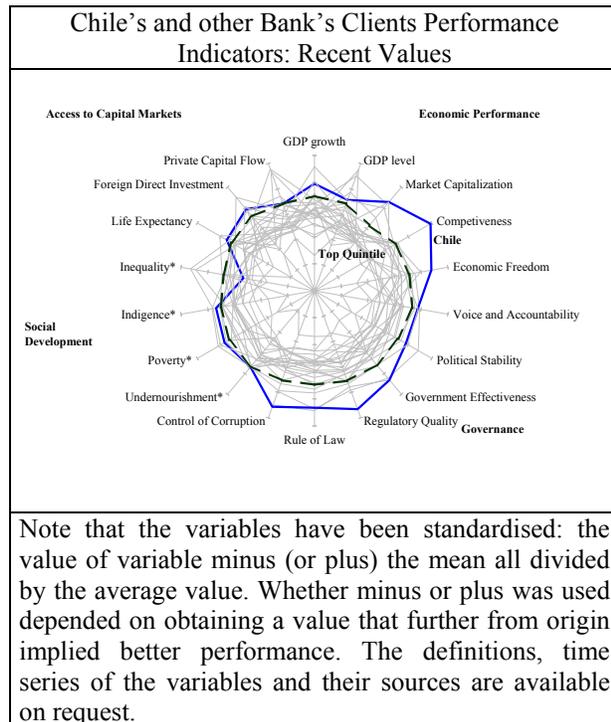
End Notes

¹ For a discussion on these criteria and the protocol governing a CPE see RE-271-2.

² See: www.oecd.org/dac/effectiveness.

³ A list of people interviewed is provided.

⁴ The Chart below shows the most recent values of a number of commonly used performance indicators. The further from the origin is the value of the indicator the better is the performance.



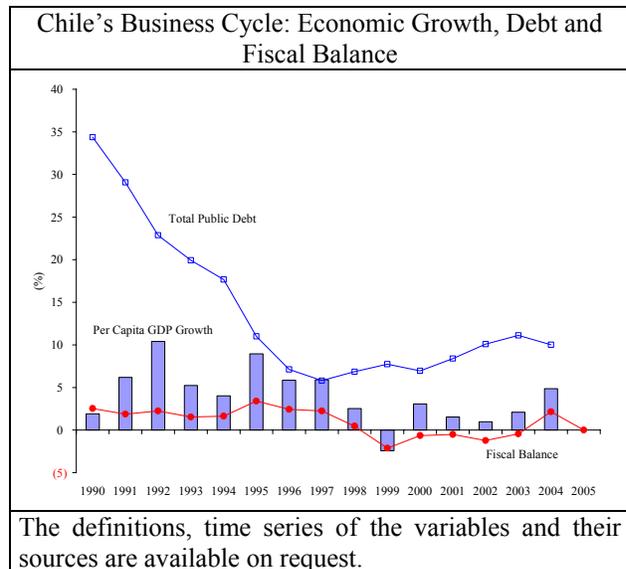
For a description of the evolution of the Chilean economy and international comparisons see “Fundamentals of the Chilean Economy”, Central Bank of Chile, January 2006 and “Una Mirada al Desarrollo Económico de Chile desde una Perspectiva Internacional” by J. R. Fuentes, and M.V. Miles, in *Economía Chilena* Vol. 8, Nr. 1, April 2005, Banco Central de Chile, and for OECD country reports see “Economic Surveys: Chile, for the years 2003, and 2005”, see also J. Collins and J. Learner, “Free Market Miracle: a Second Look”. For the evolution of debt figures, see “Chile’s External Debt”, Central Bank of Chile, 2004.

⁵ For a comparative perspective of the Chilean business cycle, see C. Calderón and R. Fuentes “*Caracterización de los Ciclos Económicos en las Economías*

End Notes (continuation)

Emergentes” and L. Céspedes and J. De Gregorio “*Recesiones: Evidencias Internacionales*”, Informe de Política Monetaria, September 2005. For the policy response to external shocks see “The policy response to External Shocks: The Experiences of Australia, Brazil, and Chile” by L. Céspedes, I. Goldfajn, P. Lowe, and R. Valdes, in *External Vulnerability and Preventive Policies*, Central Bank of Chile, 2006, eds. R. Caballero, C. Calderon, and L. Céspedes.

The following Chart shows the evolution of three variables: GDP per capita growth, public debt to GDP ratio, and the fiscal balance to GDP ratio.



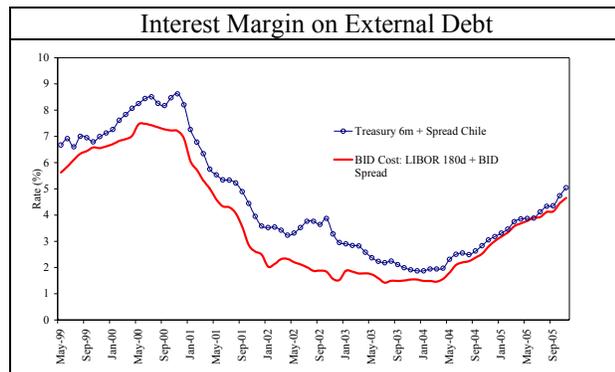
⁶ Underlying the subsequent discussion is the following framework of the Bank’s value added: the relative net present value, RNPV, from the country perspective, is defined as:

$$RNPV = \phi((i_{idb} - i_{int}) + \varepsilon + RTA + RFER);$$

where ϕ is the discount factor, $i_{idb} - i_{int}$ is the interest rate spread, ε is the option value, RTC is the relative value of technical assistance, and RFER is relative value of the reduction in fiduciary and execution risk. Note the term $i_{idb} - i_{int}$ ignores the issues of debt denomination, and whether the objective function is cost minimization or an alternative like minimizing fiscal risk. For the latter case, see E. Albagli, “Evaluating the Chilean Government’s Debt Denomination”, WP 259, May 2004, Central Bank of Chile.

End Notes (continuation)

⁷ The following Chart shows the interest margin of IDB loans and those of private external sources over LIBOR. The numbers are only indicative of the loss of competitiveness of IDB loans as they ignore uncertainty of approval, disbursement period differences, maturities, etc.



⁸ The country did request and obtain in 1999 a multisector credit program that is often used instead of a policy-based loan as a shock-mitigating instrument.

⁹ The scope of PRI operations were subject to the following: (i) limited to infrastructure and public utility projects providing services traditionally undertaken by the public sector eligible for financing; (ii) IDB's share cannot exceed 25% of the total cost or US\$75 million, whichever is greatest; (iii) add-ons that include environmental and development/social impact plus analysis fees and a contract subject to New York laws.

¹⁰ For corporate sector access to financing see: Sophie Sirtaine "Access to Finance by Chilean Corporations", WPS3845, WB, February 2006; Sara Zervos, "The Transaction Costs of Primary Market Issuance: The Case of Brazil, Chile, and Mexico", WB, March 2004. "Hedging Foreign Exchange Risk in Chile: markets and instruments", J. A. Chan-Lau, IMF WP, Feb. 2005 Gonzalo Rivas "Opciones de la Banca de Desarrollo en Chile: el convidado de piedra del sistema financiero chileno", Serie Financiamiento de Desarrollo, Nr. 148, CEPAL, June 2004. For an analysis of the commercial banks entering the micro business see E. Rhyne and R. Christen "Micro Finance Enters the Market Place".

¹¹ For the political platforms of the main presidential candidates see: (i) for M. Bachelet "Programa de Gobierno" manuscript, October 2005; (ii) S. Pinera "Un Chile Libre, Grande y Justo: Se Puede" Manuscript, 2005, (iii) and for J. Lavín see *Talleres Bicentenario, "Chile hacia el Bicentenario: Nuestra Propuesta"*, 2005. For a comparison of the proposed programs but concentrating on the proposals effect on economic

End Notes (continuation)

growth, see K. Schmidt-Hebbel, Chile's Economic Growth", unedited, Central Bank of Chile, May 2006.

¹² For a description and analysis of better policies and better institutions see, V. Corbo, L. Hernández, and F. Pardo, "Institutions, Economic Policies, and Growth: lessons from the Chilean Experience" WP, No. 317 Central Bank of Chile, 2005 and C. Aninat et. al., "Political Institutions, Policy Making Processes and Policy Outcomes in Chile", RES/IDB 2005, C. Aninat and J. Vial, "Who Decides on Public Expenditures: a political economy analysis of the budget process in Chile", University Adolfo Ibañez, Nov. 2005.

¹³ For an analysis of the country's elites' opinion on income distribution see E. Rivera Gómez, "Distribución del Ingreso: Representaciones de las Elites sobre los Mecanismos y Posibles Impactos de una Política Pública Distributiva" Thesis, November 2005, Universidad de Chile. For an analysis of distribution problems see F. Torche and G. Wormald, "Estratificación y Movilidad Social en Chile: Entre la Adscripción y el Logro", *Serie Políticas Sociales*, Nr. 98, Oct. 2004. Cepal, R. Castro and R. Sánchez, "Una Nueva Mirada a la Distribución del Ingreso en Chile", Serie Informe Social, Nr. 91, Instituto Libertad y Desarrollo, 2005. For a view of different aspects of the country's recent history within the perspectiva of equity and efficiency see the articles in "La Paradoja Aparente" ed. P. Mellar, Taurus, Santiago, 2005.

¹⁴ See the opinion surveys by Centro de Estudios Políticos, Chile, and for the public perception on crime see "Índice de Paz Ciudadana", Adimark, GfK, Chile.

¹⁵ See Staff Report for 2006, Article IV Consultation, IMF, July 2005, Appendix IV.

¹⁶ Simultaneously, the government has promoted the Euroclear trading system to encourage access of international investors to the local market.

¹⁷ See "Estoy Contigo. Programa de Gobierno 2006-2010", Michelle Bachelet, 18 de octubre de 2005.

¹⁸ See I. Irarrázaval, "Tareas Necesarias para la superación de la pobreza: focalización, crecimiento y oportunidades" in "Que Hacer Ahora?" *Propuestas para el Desarrollo*, eds., H. Beyer, and R. Vergara, CEP, 2001.

¹⁹ See J., Rodríguez and M. Tokman, "Resultados y rendimientos del gasto en el sector público de salud en Chile, 1990-1999", Serie Financiamiento del Desarrollo, ECLAC, 2001.

²⁰ For a proposal see B. Eyzaguirre and L. Fonyaine, "Una estructura que presione a las escuelas a hacerlo

End Notes (continuation)

bien”, in “*Que Hacer Ahora?*” *Propuestas para el Desarrollo*”, eds., H. Beyer, and R. Vergara, CEP, 2001.

²¹ See S. Valdés, “*Contratos y remuneraciones de altos directivos públicos*”, Working Paper Number 233, CEP, Santiago, 2001.

²² There appears to be a recent fall in microeconomic efficiency; see, R. Caballero, E. Engel and A. Micco “*Microeconomic Flexibility in Latin America*”, Center Discussion Paper, No. 994, March 2004.

²³ See Annex III of GN-1911-1. Of the balance, 41.1% was pre-paid (13 operations), and 14 projects were cancelled representing US\$427.12 million.

²⁴ There were four workshops: State Reform; Modernization of the Budgetary Process; Strengthening the Relationship between the Government and Civil Society; Technology, Information, Communication and Competitiveness; and The Impact of an Aging Population.

²⁵ The 1996’s strategy pointed out that the World Bank had a US\$115 million program for the years 1996-1998, about one operation per year. The 2000’s strategy identified the programs expected from WB and JICA.

²⁶ See Chapter III. Estrategia del Banco, pages 17-23 (GN-1911-1).

²⁷ Anexo I: Matriz de Acción del Banco en Chile in GN-1911-1.

²⁸ These numbers come from an exercise carried out specifically for this CPE. Information in loan documents was mapped into results frameworks for each project. The result frameworks were sent to COF to check for their veracity regarding errors of fact, omission, or interpretation. The frameworks are available on request. The frameworks map the information in the loan document to the following results matrix:

	Metric 1	Baseline 2	Milestone 3	Target 4
Outcome 1				
N				
Output				
N+1				
M				

The *ex ante* completeness index, CI, is defined as:

$$CI = \sum \frac{a_{ij}^*}{a_{ij}}$$

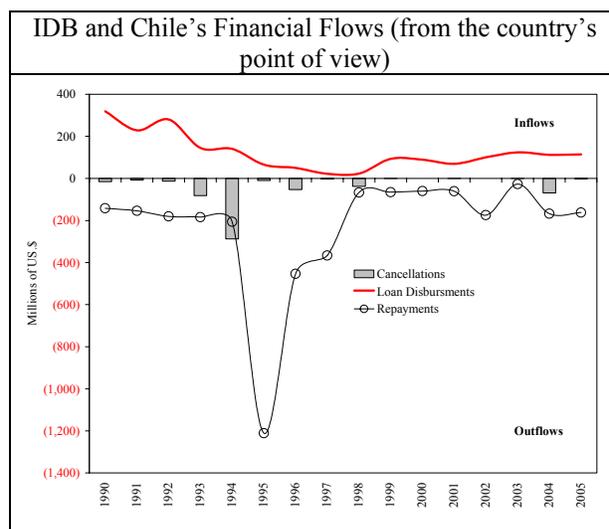
Where a_{ij} is the cell of i th row and j th column, and a_{ij}^* is a cell with an entry (=1, zero otherwise), $i=1\dots m$, and $j=2\dots 4$. The index varies from

End Notes (continuation)

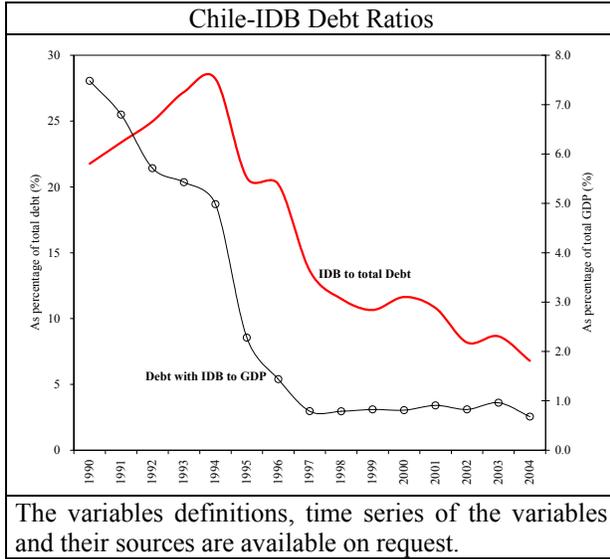
zero (not evaluable) to unity (fully evaluable). The index is decomposable both for rows and columns.

²⁹ The 1996 country program had begun (as of December 1995) with nine loans (valued at US\$740 million), and 22 TCs (valued as US\$7.3 million). From 1996 to 1999 two (valued as US\$466 millions, both in 1999), and 33 (valued as US\$14.9 million) TCs, were approved. During the same period eight loans and 26 TCs closed. For the 2000 to 2005 country program cycle, it began with a stock of three (valued as US\$0.3 billion) loans, and 29 TCs (valued as US\$17.6 million). During this period, 28 loans (US\$0.8 billion) and 48 TCs (US\$21 million) were approved, and 28 loans (US\$0.5 billion) and 53 TCs (US\$24 million) closed. In December 2005, the stock of loans was 17 (US\$0.5 billion) and the stock of TCs was 24 (US\$15 million).

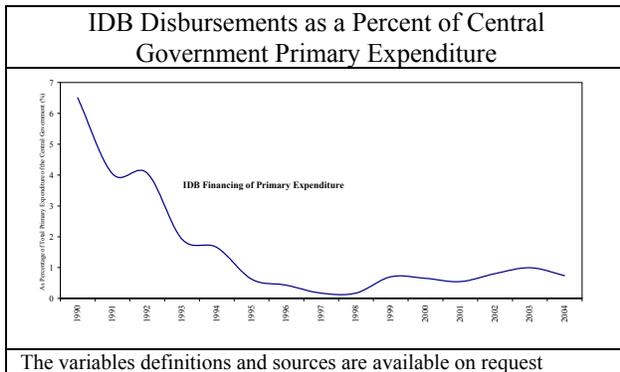
The following Chart shows the flows between the Bank and the country. The Chart is drawn from the country’s perspective. The subsequent Chart shows Chile-Bank debt stock ratios.



End Notes (continuation)



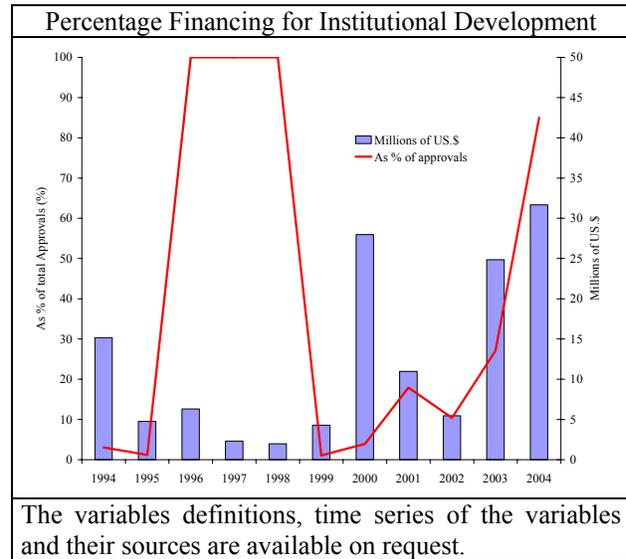
³⁰ The following Chart shows the precipitous fall in the importance of IDB's disbursements as a source of financing of primary public expenditure.



³¹ The project classification used is the same as in the "Informe sobre Logros y Lecciones Aprendidas en la Ejecución de las Estrategias de Banco en Chile, 1994-2004" by Juan Pablo Valenzuela, August 2005, IDB.

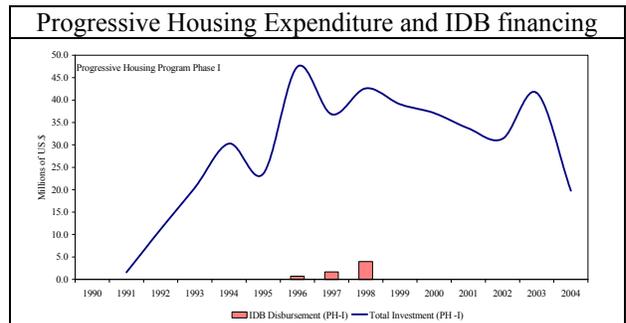
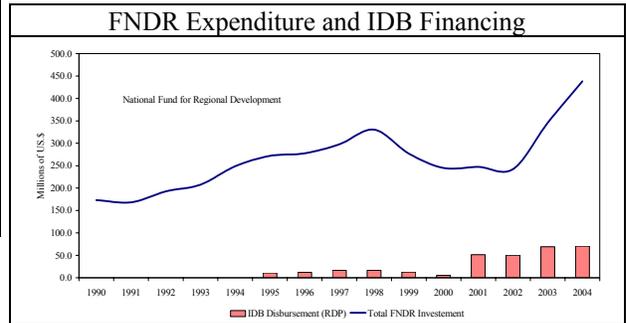
The following Chart shows the percent of annual approvals that had institutional strengthening components. All TCs approved in that year are classified as entirely dedicated to institutional strengthening. This accounts for the 100% figures for the years 1996-1998, a period when only TCs were approved.

End Notes (continuation)

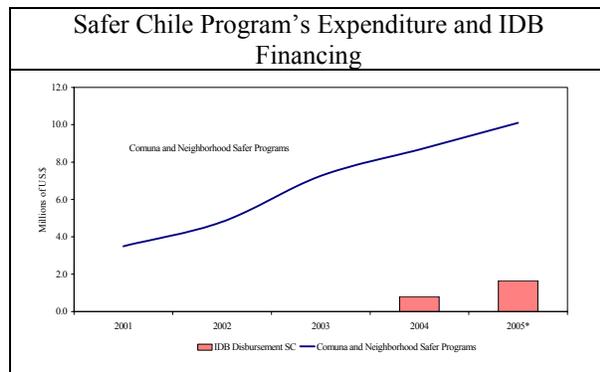
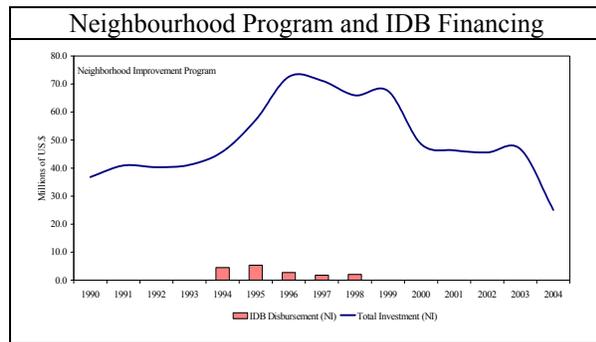


³² Most of the operations have been approved in the tail end of the program, hence a comprehensive evaluation will have to wait until the next country program evaluation programmed for 2010.

³³ The following charts show the percentage importance of IDB's financing of a number of the country's programs.

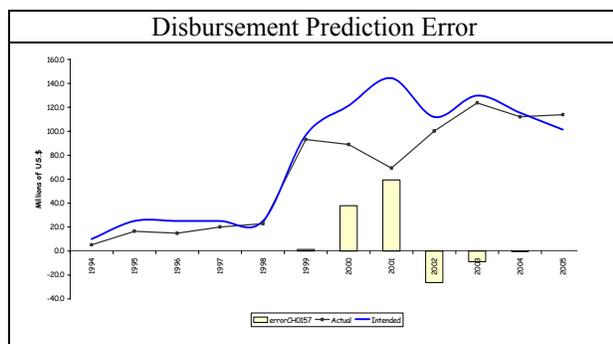


End Notes (continuation)



³⁴ See page 5 of CDF Profile, World Bank., undated.

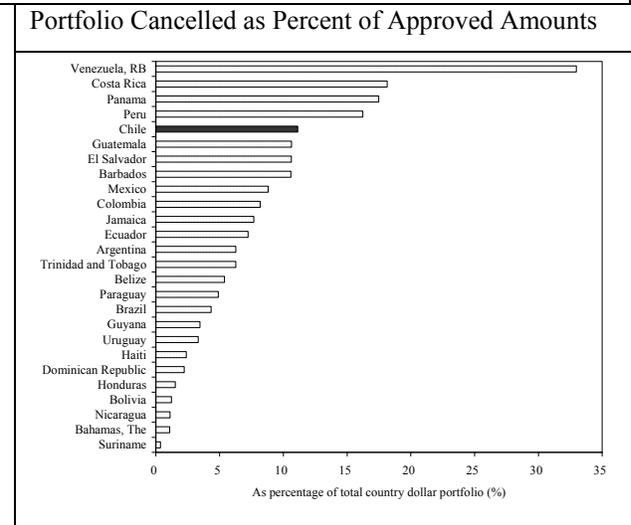
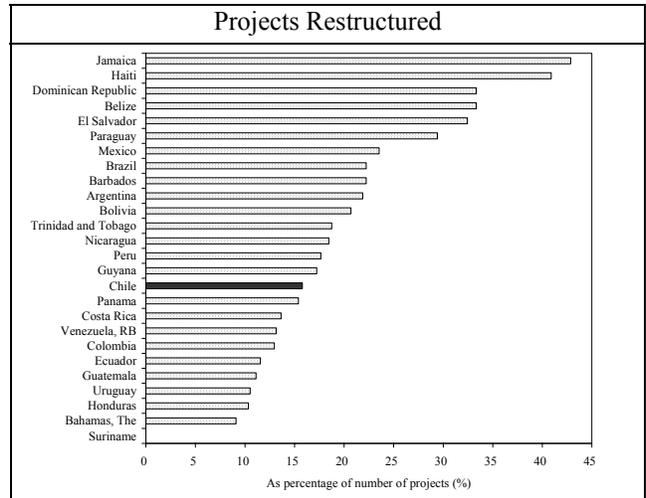
³⁵ The following chart shows programmed and actual disbursements.



³⁶ For a detailed description of individual projects outputs, see "Chile: Informe de Revisión de Cartera", CP-1192-16, November 2004, IDB, and similar reports for the previous years.

End Notes (continuation)

³⁷ The following charts show the percent of the number of operations restructured and percent of dollar values of the country portfolios cancelled.



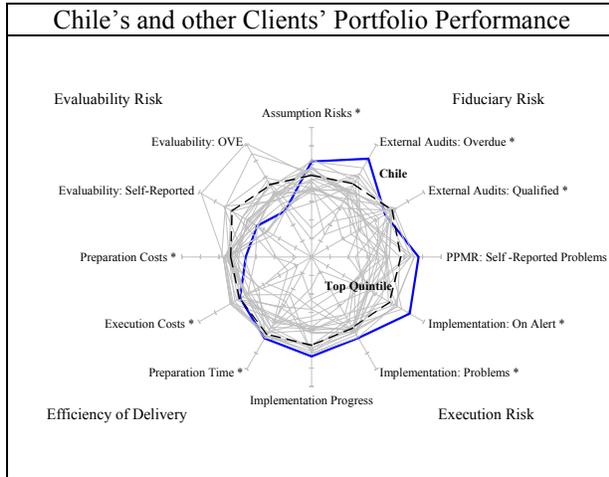
The variables definitions, time series of the variables and their sources are available on request

³⁸ The Bank had originally approached administrative reform with the Ministry of Justice in 1994 with TC9407190.

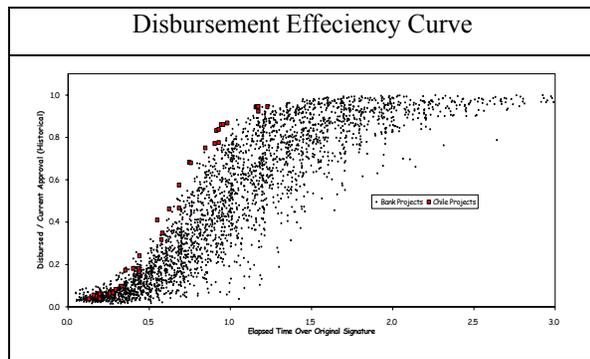
³⁹ Local currency issues were first carried out in Santiago-Valparaíso-Viña Highway project (CH0167), approved in 2000) and was followed by the Costanera Norte Highway project (CH0179), approved in 2003. The 2000 operation was awarded prizes by Project Finance Magazine, and Euromoney Project Finance.

End Notes (continuation)

⁴⁰ These indicators are drawn in the following Chart. The chart is drawn such that the better performing value of the indicator lies further from the origin.



Note that the variables in the Chart have been standardised. The standardisation followed the following procedure: the value of variable minus (or plus) the mean all divided by the average value. Whether minus or plus was used depended on obtaining a value further from the origin implied better performance. Details of the data are available on request. The following chart shows the relation between the ratio of the dollar amount disbursed to the amount approved relative to the ratio of actual to original planned time of disbursement, again the projects are better performing than IDB's total portfolio.



⁴¹ See "Republic of Chile Country Procurement Assessment Report" August 2004, World Bank, and Republic of Chile Country Financial Accountability Assessment, June 2005, World Bank and Inter-American Development Bank; Chile Report on the Observance of

End Notes (continuation)

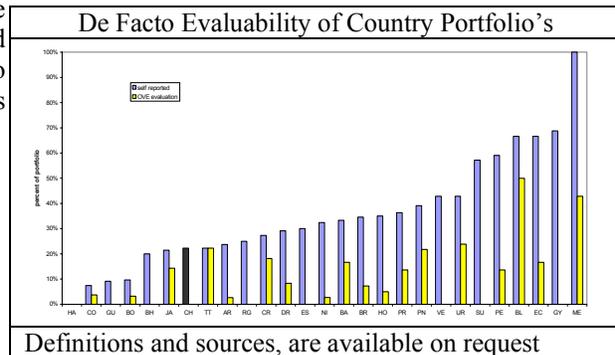
Standard Codes (ROSC) Fiscal Transparency Module", July 4, 2003, IMF CR No.03/237, Chile Report on the Observance of Standards and Codes-Data Module; and Response by the Authorities, CR01/119.

⁴² See "Chile: Parámetros Financieros de País (PFP)", CP-1192-17, August 17, 2005 and for the proposal to use the local systems see CC-6066, 10th of January 2006.

⁴³ The MIF program TC9808041 was approved in 1999; the WB operation Targeting Education Finance For Results was approved in 2005. It is an Adaptive Program Loan.

⁴⁴ The original MIF operation TC0009024 was approved in 2001. The World Bank operation Santiago Urban Transport Adjustment is a one tranche SECAL with a deferred Drawn Down Option and a two tranche SECAL; it was accompanied by the sweetener technical assistance of US\$4.8 million (Report No. 28521).

⁴⁵ The following chart shows the percentage of the country's portfolio that the Bank claims have a baseline and an information system in place. These projects, active in December 2004, were subject to a survey by OVE that attempted to determine for which outcome metrics there was baseline and current information. The COF in Chile did not respond to the survey. Responds replies were checked by OVE to determine if the claimed indicators were outcomes or not.



Definitions and sources, are available on request

⁴⁶ See Marcela Guzmán, "Sistema de Control de Gestión y Presupuesto por Resultados: La Experiencia Chilena" Dirección de Presupuesto, Ministerio de Hacienda, Gobierno de Chile, September 2005, "Systems of Management Control and Results-Based Budgeting: The Chilean Experience", Management Control Division, Chile, 2003; and "Evaluación de la Gestión Financiera del Sector Público en 2004 y Actualización de Proyecciones para 2005", Ministerio de Hacienda, Chile, Junio 2005.

End Notes (continuation)

⁴⁷ See CP-1283 of May 1997 that states “ *Measuring project results means focusing on project objectives and components, and establishing good indicators to measure whether or not project objectives are being attained*” par. 14, and “...*provide the basis for the ex post evaluation stage...*” par. 17. and is reiterated in Guidelines for the PCR System v1.0 of 2003 that states that one of the main objectives of a PCR is to “*Evaluate the project results in terms of outputs and outcomes*” and “... *standard of living (impacts)*”. Of the ten PCRs, seven were produced since 1997.

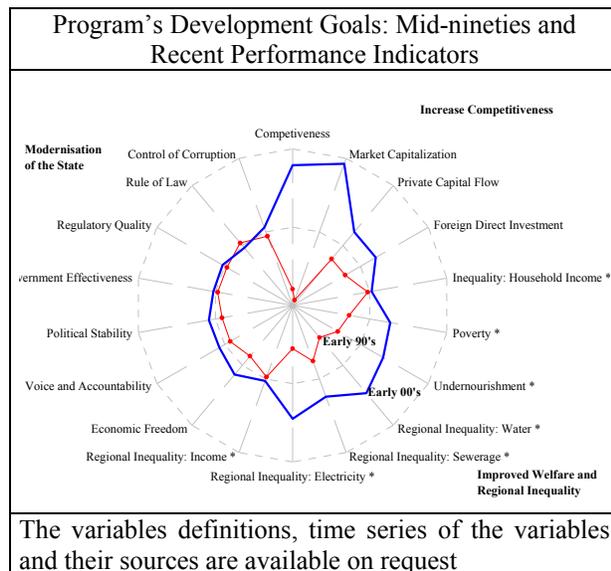
⁴⁸ The data for many of the indicators are from the CIPA database of the World Bank. This has not yet been made public. For CDF see

<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/STRATEGIES/CDF/0,,pagePK:60447~theSitePK:140576,00.html>

⁴⁹ Program is used here to describe the country’s public program in which the IDB project is embodied. For the projects evaluated in this chapter, most did not have a selection criteria of beneficiaries that was, for all practical purposes, distinct from the country’s program.

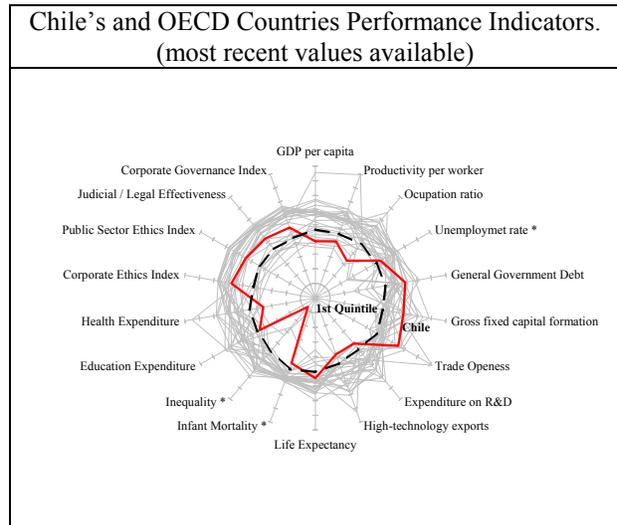
⁵⁰ For the virtues and limitations of impact-treatment effects, see J. Heckman “Microdata, Heterogeneity, and the Evaluation of Public Policy: Nobel Lecture”, Journal of Political Economy, vol.109, No. 4, 2000.

⁵¹ The following chart shows the values of a number of performance indicators for around mid-nineties and the most recent values.



⁵² The following chart draws key performance indicators for OECD countries and Chile.

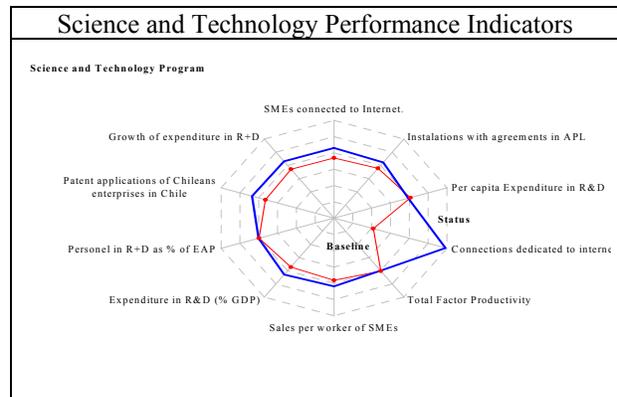
End Notes (continuation)



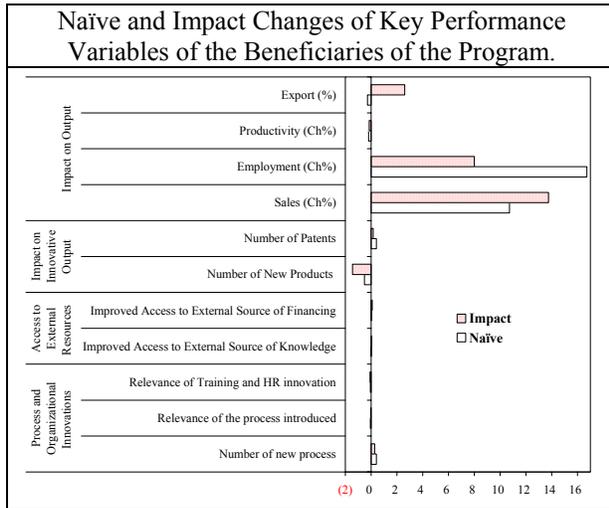
Note that the variables in the chart have been standardised. The standardisation followed the following procedure: the value of variable minus (or plus) the mean all divided by the average value. Whether minus or plus was used depended on obtaining a value that further from origin implied better performance. Data details are available on request.

⁵³ For a full description see see: “*Innovar en Chile: Programa de Desarrollo e Innovación Tecnológica*”, Subsecretaría de Economía, Fomento y Reconstrucción, Ministerio de Hacienda, 2006.

⁵⁴ The following two charts show the change overtime of key performance indicators for science and technology and the change in performance indicators for both naïve and impact of the beneficiaries of the credit to firms component of the program.



End Notes (continuation)



The chart's variables' definitions, time series data, method, results and their sources are available on request

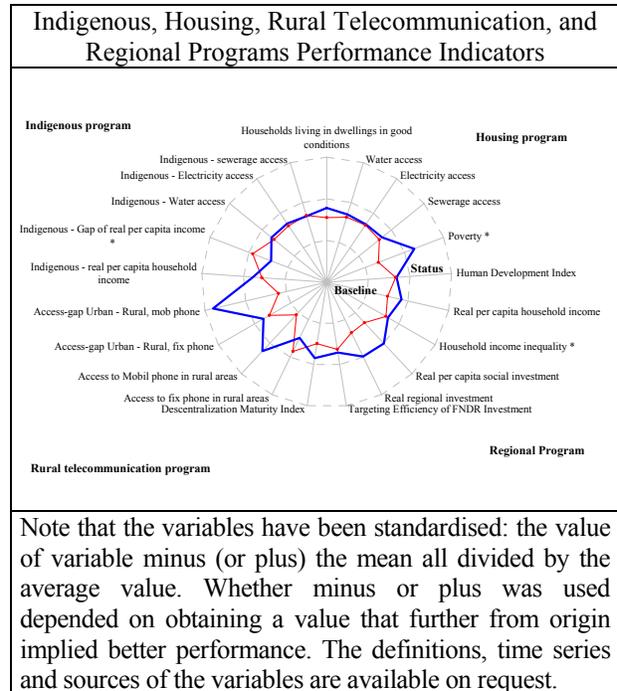
⁵⁵ See W. Maloney and A. Rodriguez-Clare, "Innovation Shortfall", June 2005, IDB, unprocessed; J. Benavente, L. de Mello, and N. Mulder, "Fostering Innovation in Chile", Working Papers, No. 454, OECD Economics Department, Oct. 2005. L. Hdm-Nielson and N. Agupitova, "Chile Science, Technology and Innovation", LCHD Paper Series, WB, Dec. 2002, G. Rivas, "El Capital de Riesgos y sus Posibilidades de Desarrollo en Chile", 2004.

⁵⁶ For a comprehensive description of policies, institutions, and instruments see "Evolución, Lecciones y Desafíos de las Políticas de Desarrollo Regional Territorial en Chile, RE1/IDB, Enero 2006"; R. Díaz, A. Pardo, and R. Muller, "Análisis Económico-descriptivo de las Regiones Chilenas", undated, J. P. Valenzuela, "Descentralización fiscal: los ingresos municipales y regionales en Chile", Series Política Fiscal, CEPAL.

⁵⁷ The Bank has had four continuous operations with FNDR since 1986. For the period under review the operation (CH0156 2000-2006) had followed (CH0004 1994-2001). One additional operation that was approved prior to the period was Phased Low Cost Housing and Neighbourhood Improvement (1993–1999). During the period reviewed, additional projects approved were: (i) Indigenous Communities (CH0174, 2001-2006); (ii) Rural Telecommunication (CH0156, 1999-2000); (iii) Rural Electrification (CH0174, 2003-open); (iv) Sustainable Community based Tourism in Chiloe and Palena (CH0172, 2003-open).

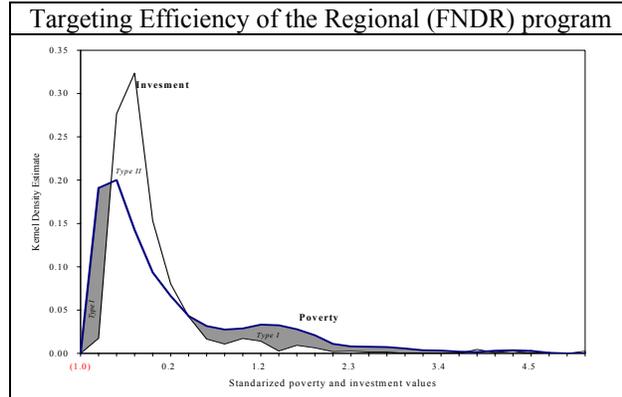
End Notes (continuation)

⁵⁸ The following chart shows the change overtime of key performance indicators for regional, housing, rural telecommunications and indigenous areas.

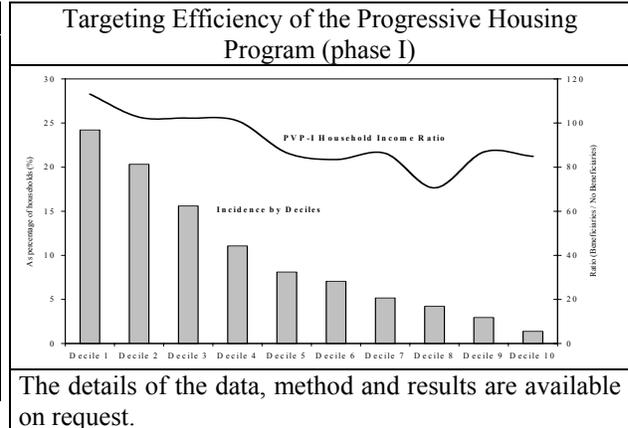


⁵⁹ The following chart shows the targeting efficiency of the Regional (FNDR) program. It shows the kernel density estimate (band width 0.8 and "Epanechnikov" technique) and the level of poverty and investment. The darkened parts show error type 1 (i.e. the proportion of expenditure that is lower than that warranted level of expenditure for the given number of poor households) while the non-darkened part between the lines show the value of error type II i.e. , the proportion of expenditure that is higher than that warranted level of expenditure for the given the number of poor households).

End Notes (continuation)

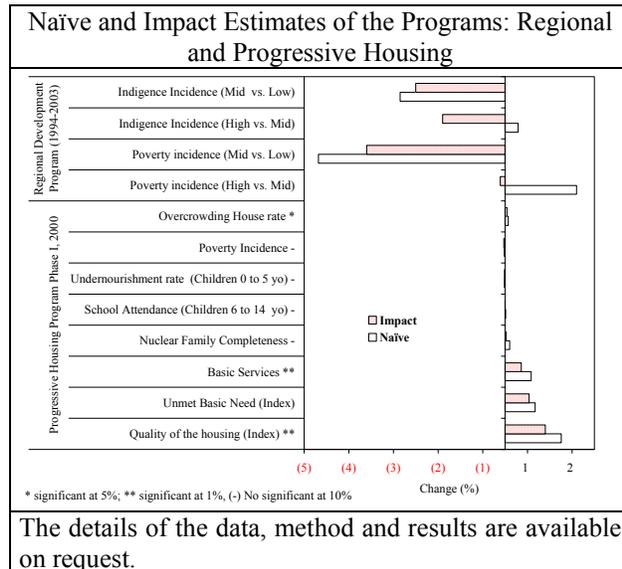


End Notes (continuation)



The details of the data, method and results are available on request.

⁶⁰ The following chart shows the naïve and impact calculations of the regional (FNRD) and progressive housing programs.



The details of the data, method and results are available on request.

⁶¹ The following chart shows the targeting efficiency of the Progressive Housing Program.

⁶² See chart in endnote 49.

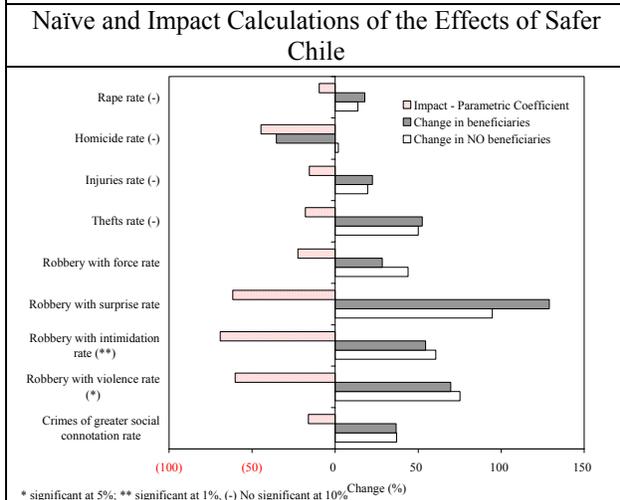
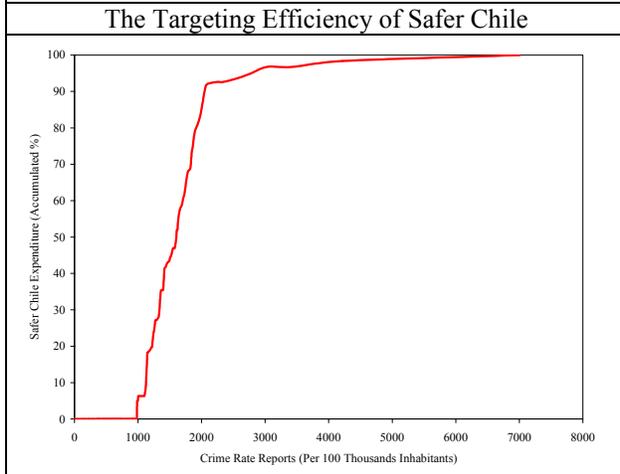
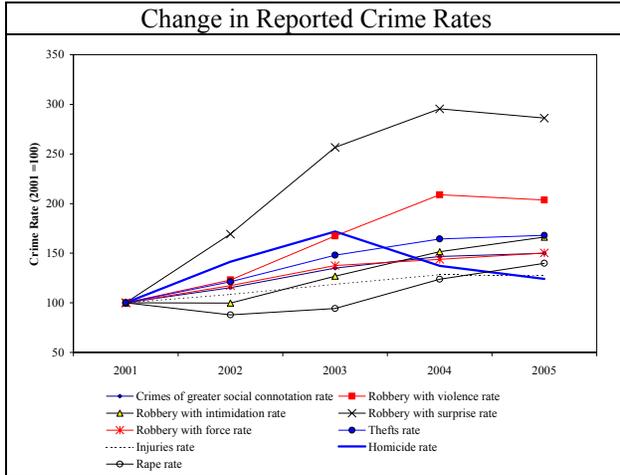
⁶³ For a critical description of the policies see Pia Greene, “*Delincuencia 1990-2005: Evaluación Crítica y Propuestas*”, Serie Informe Política, No. 91, Agosto 2005, Libertad y Desarrollo. For an analysis see “*Determinantes Socioeconómicos y Demográficos del Crimen en Chile*”, Estudios de Economía, Vol.30, No. 1, Junio 2003. For an evaluation of Safer Chile prior to the Bank’s intervention see “*Programas Antidelincuencia: Evaluando Comuna Segura*” by J.M. Benavente, D. Contreras, and E. Melo, University of Chile, November 2002. For a discussion of different techniques for evaluating crime rates see “Alternative Strategies for Identifying the Link Between Unemployment and Crime”, Journal of Quantitative Criminology, Vol. 17, No. 4, December 2001 and “Improving Evaluation of Anticrime Program”, M. Lipsey (ed.), 2005.

⁶⁴ CH0178, it had been preceded by a technical assistance operation (ATN/JO-8073-CH). A related project, approved in 2005, is the Justice Administration Modernization Project (CHL1012).

⁶⁵ The following three charts show the change in crime rates reported, the targeting efficiency, and the naïve and impact effects of the Safer Chile Program.

End Notes (continuation)

End Notes (continuation)



The details of the data, method and results are available on request.

⁶⁶ The Administration points out in comments dated 9th August 2006 that “Para el caso de Orígenes, actualmente se está gestionando una CT del Fondo Japonés que apoye el diseño del componente de evaluación de la II Fase, la cual incluirá; i) diseño de sistemas de información y evaluación; ii) evaluación de impacto de la I Fase y evaluaciones intermedia y final de la II Fase y iii) difusión de lecciones aprendidas. Esto debiese corregirse en el documento, lo mismo respecto a la sugerencia de la elaboración de un panel, lo cual sería imposible, pues la línea de base de la I Fase se levantó sólo en el 2003 y haber realizado una nueva evaluación en el 2005 – a sólo dos años de la primera encuesta– no parece indicado. La posibilidad de elaborar un panel está completamente abierta, pero será definida dentro de las propuestas de la CT que se realizará. Las entrevistas señaladas en el párrafo son sólo uno de los componentes de la estrategia de seguimiento y evaluación del Programa, y particularmente responden a la obtención de aprendizajes indispensables para el diseño de la II Fase.”

⁶⁷ However, the Administration states in Comments dated 9th of August 2006 “Respecto a la oportunidad perdida: Con relación a Valparaíso: el Banco acordó con el país un periodo de 12 meses – luego de firmado el contrato– para instalar un sistema de monitoreo. Esto está avanzando, según programado, incluso será apoyado por una consultoría técnica francesa, cuyo trabajo comienza este mes en Valparaíso, lo cual invalida el comentario sobre este ejemplo.”