Office of Evaluation and Oversight

Approach Paper

Chile 2014-2018

Country Program Evaluation

IDB | IDB Invest

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CONTENTS

ABBREVIATIONS

CPE	Country Program Evaluation
CDS	Credit Default Swaps
FSS	Fee for service
GCI	Global Competitiveness Index
GDP	Gross domestic product
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
NSG	Non-sovereign guaranteed
OVE	Office of Evaluation and Oversight
OECD	Organization for Economic Cooperation and Development
PBL	Policy-based loan
PBP	Programmatic policy-based loan
SG	Sovereign guaranteed
SME	Small and medium-sized enterprise
TFFP	Trade Finance Facilitation Program

I. INTRODUCTION

1.1 **As part of its 2018 work plan, the Office of Evaluation and Oversight (OVE) is preparing the IDB Group Country Program Evaluation (CPE) with Chile for the period 2014-2018.** This is OVE's fourth independent evaluation of the IDB's program in Chile. The diagnostic assessments in the previous CPEs (documents RE-320, RE-380, and RE-465-1) highlighted Chile's difficulty in maintaining high levels of productivity and a more diversified range of exports, and in reducing social inequality gaps. For their part, both the previous CPEs and OVE's evaluation on higher-middle-income countries (RE-447-1) highlighted the IDB's limited competitiveness in a country like Chile, which has access to capital market finance, and the difficulty of finding a business model adapted to this situation. Some of these evaluations also highlighted the importance of the IDB Group's potential nonfinancial "value added" in this context.[1]

1.2 **This document defines the scope and methodology of the CPE for the period 2014-2018.** This evaluation will continue OVE's lines of work, looking closer at value-added issues and learning processes in relation to the IDB Group's relevance, effectiveness, and efficiency in Chile. This document is organized as follows: Section II gives a brief introduction to the macroeconomic, social, and institutional context in which the Bank Country Strategy was implemented; Section III describes the objectives of the 2014-2018 Bank Country Strategy and the IDB Group portfolio, and Section IV introduces the evaluation questions.

II. THE 2014-2018 COUNTRY PROGRAM CONTEXT

2.1 **Chile is a high-income country, with an open economy and a solid institutional framework.** Chile is the fifth largest economy in Latin America and the Caribbean in GDP terms and has a per capita income of nearly US$14,000 (current prices), one of the highest in the region.[2] Chile has been a member of the Organization for Economic Cooperation and Development (OECD) since 2010. The country's productive structure is dominated by the services sector, which accounts for close to two thirds of GDP, while the manufacturing and mining industries represent 12% and 10% of GDP, respectively. The mining industry is dominated by copper, which in 2016 accounted for 41% of its exports, with Chile being the world's largest producer and exporter.[3]

A. Macroeconomic context

2.2 **Economic growth slowed over the country strategy period (2014-2018) to an average of 1.9% per year compared with an annual rate of 4.6% between 2010 and 2014.** The slowdown in recent years is partly explained by slower growth in global demand, particularly from China, the end of the commodities super cycle—

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1 Issues related to the IDB's value added include: coordinating the implementation of complex issues by playing an impartial role as an honest broker; helping resolve coordination failures; assuring the quality of public policies (IDB seal) and channeling technical expertise.

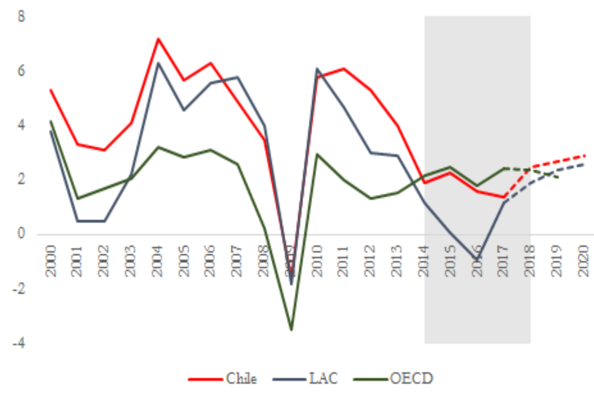
2 Chile's per capita GDP in PPP (purchasing power parity) terms (in 2013 U.S. dollars) is US$21,990 compared with an OECD country average of US$37,986. https://www.oecd.org/chile/.

3 Chile's copper production represented 26.8% of world production in 2016. Chile has remained the largest producer despite its share decreasing by nine percentage points since 2006 (having dropped by 4.2 percentage points since the start of the country strategy).

particularly in copper, the price of which fell by 35% between 2011 and 2016. Both factors had a negative impact on investment and the country's export revenue.[4] This was compounded by low levels of productivity and the end of the demographic dividend.[5]

2.3 **Despite this slowdown, the Chilean economy grew faster than its regional peers and proved to be better prepared to deal with external shocks.** During the evaluation period, Chile's GDP growth fell below the OECD average, but remained close to 1.4 percentage points (pp) above the regional average, where the shock to the terms of trade was accompanied by a contraction in 2015 and 2016 (Figure 2.1). The factors underlying the relatively good performance of the Chilean economy included the fact that the country has maintained a policy of fiscal responsibility and a floating exchange rate, allowing it to offset the slowdown in external demand and falling commodity prices, while applying countercyclical monetary and fiscal policies (Article 4, IMF, 2016). Nevertheless, the fiscal deficit increased and the ratio of government debt to GDP doubled.[6]

Figure 2.1. Real GDP growth (annual percentage change)



Source: IMF, OECD.
Notes: The shaded area represents the country strategy period. The dashed lines represent IMF and OECD projections.

2.4 **Chile's country risk remains the lowest in the region, assuring it access to financial markets at competitive rates.**[7] Between 2014 and 2018 Chile placed 10 bonds on the markets for around US$5.648 billion and €4.920 billion with tenors of between 10 and 30 years. With a view to delivering liquidity to the treasury in local currency and setting a benchmark for the medium- and long-term rates for the local fixed-income market, Chile also issued bonds worth about Ch$9.6 trillion in Chilean pesos and about 362 development units.[8]

2.5 **Chile is a regional leader in terms of business climate.** Various rankings put Chile in prime position within the region, rated in first place in the *Global*

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4 IMF (2016), *Staff Report for the 2016* Article IV Consultation; p. 30.

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

6 Between 2014 and 2018 the monetary policy rate went from 4.5% to 2.5% of GDP, the fiscal deficit rose from 1.5% to 3.1% of GDP, while the debt-to-GDP ratio rose from 14.9% to 27.6%.

7 In 2017, five-year credit-default swaps (CDSs) registered their lowest levels in almost a decade. Looking at the region from this perspective, Argentina's five-year CDSs traded at 307.28 bp; Brazil's at 239.03 bp; Colombia's at 129.15 bp; Mexico's at 120.11 bp, Peru's at 95.35 bp, and Chile's at 71.76 bp (May 2017).

8 http://www.dipres.gob.cl/598/articles-169520_doc_pdf.pdf.

Competitiveness Index (GCI)[9] and by *The Economist Intelligence Unit,*[10] and second in *Doing Business (DB).*[11] The positive climate for business is mainly due to the smooth functioning of its market economy (in particular the goods market), the sophistication of its capital markets and its economic openness. Despite the positive climate, the private sector faces constraints in terms of the size of the domestic market and access to credit.[12] On the regulatory side, business faces challenges when paying taxes, creating new companies, and with respect to the labor market.

2.6 **External conditions showed signs of improving in 2017 and a recovery in exports and the growth rate is forecast. However, the low productivity rate remains a structural challenge for growth.** The IMF forecasts a slight increase in the GDP growth rate in the short term, but unless productivity rises it is difficult to foresee high growth rates over the long term.[13] Although multiple factors affect productivity growth, there is a consensus on the importance of the following: limited diversification of productive and export activity; low investment in innovation and development; limited capacity of SMEs; and, to a lesser extent, human capital and infrastructure gaps.[14]

B. Social context

2.7 **Economic growth and sector reforms have spurred significant social progress, including an extraordinary reduction in poverty.** Between 2000 and 2015, poverty in Chile (measured in terms of the share of the population living on less than US$4 a day) dropped from 26% to 8%, compared with a poverty rate of 23.6% across Latin America and the Caribbean.[15] For its part, the middle class (defined as the percentage of the population on a daily income of US$10 to US$50) represented 51.3% of the population in 2015 (Figure 2.2).

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

10 http://country.eiu.com/article.aspx?articleid=1375818721&Country=Chile&topic=Business&subtopic=Business+environment&subsubtopic=Business+environment+rankings&aid=1&oid=1386496322.

11 http://www.doingbusiness.org/~/media/wbg/doingbusiness/documents/profiles/country/chl.pdf.

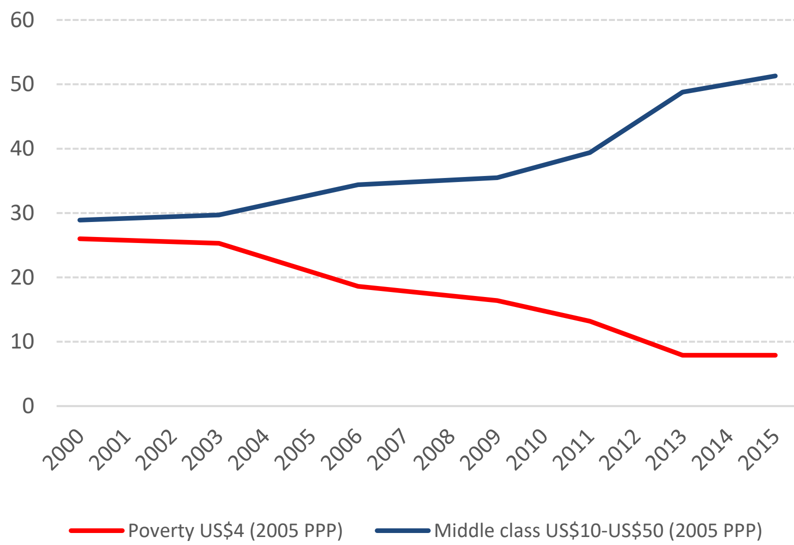
12 Restrictions on access to finance for SMEs are significant; they receive only 18.6% of business loans. This is one of the lowest figures in the OECD and below that of other countries in the region, such as Colombia (26%) and Brazil (40%). *Financial Services Report January 2018* (EIU).

13 Total factor productivity (TFP) began to stagnate in the late 1990s and to drop in 2007, largely due to falling productivity in the mining industry (UAI/CORFO, 2015). Stagnation and falling productivity account for more than 80% of the drop in growth (Syversson, 2014, and Conference Board).

14 See http://www.comisiondeproductividad.cl/wp-content/uploads/2017/01/CNP-ANUAL-2016-FINAL-.pdf and http://www.productividadchile.cl/wp-content/uploads/2016/04/Diagnostico-General-McKinsey-2015.pdf.

15 *LAC Equity Lab*: A Platform for Poverty and Inequality Analysis, World Bank. In terms of relative poverty (share of the population with an income less than 50% of the average median income), the measure used by the OECD, Chile's rate was 16.1% (2015), which is above the OECD average of 11.3% (2014).

Figure 2.2. Poverty rate and the middle class



Source: World Bank, LAC Equity Lab. Note: PPP refers to purchasing power parity.

2.8 **Despite this progress, Chile remains a highly unequal society and major income disparities persist among vulnerable groups and between regions.** Chile's Gini coefficient is 0.48 (2015). While this is below the regional average (0.51), it makes it one of the most unequal countries in the OECD (with an average Gini coefficient of 0.31 in 2014).[16] Although all Chile's regions have achieved reductions in poverty, significant differences exist between them (Figure 2.3), and rural poverty (22.1%) is twice the urban poverty rate (10.2%). The rate of poverty is higher among indigenous peoples, young people, and women.[17]

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[16] The income of people in the 90th percentile of the wage ranking is more than seven times that of people in the 10th percentile, compared with three-to-four times in most OECD countries.

[17] Although the poverty rate among the indigenous population has declined over the last decade, there is still a seven-point gap compared to the nonindigenous population. Extreme poverty is also more prevalent among indigenous peoples (6.6%) than the general population (3.2%). Youth poverty (among those under 15) is twice (18.3%) that registered among working-age adults (9.7%). The gap between men and women is around one percentage point. World Bank Group (2017) Op. Cit. p. 52.

Figure 2.3: Regional poverty and indigenous population

Source: World Bank (2016) with CASEN data. Note: The yellow dots indicate the indigenous population (1 dot equals 8,000 people) and the blue shading indicates the poverty rate.

C. Institutional context

2.9 **Chile is a benchmark in the region in terms of institutional capacity and institutional quality, although limitations persist at subnational level and in relation to the quality of public services.** Chile's scores on Worldwide Governance Indicators (2016) are around the OECD country average and well above the regional average. However, at the subnational level (regional and municipal), limitations persist in fiscal and administrative terms, mainly associated with competency and resource issues.[18] During the evaluation period, major reforms were pushed through concerning decentralization and regional development. Electoral reform was also promoted with a view to guaranteeing a more proportional and representative system at the regional level, while reducing barriers to entry for smaller political parties and vitalizing electoral processes. In relation to public services, Latinobarómetro surveys show Chileans to be

[18] World Bank Group (2017) Op. Cit. pp. 10, 102-105.

increasingly dissatisfied with public services, particularly health and education.[19] Likewise, confidence in public institutions has deteriorated, spurring a major agenda of public administration reforms, with a strong emphasis on transparency and probity.

2.10 **During the evaluation period, Chile made progress on the reform process addressing the country's long-term challenges.** This agenda of sector reforms, some of which were begun by previous administrations, aimed to stimulate economic growth and reduce levels of inequality. The main areas of reform included tax reform, to create a more progressive tax structure; education reform, to boost educational opportunities for all social strata; and labor reform, to broaden workers' rights and expand collective bargaining. Headway was also made on the implementation of a series of reforms already under way that sought to stimulate competition and diversify the country's energy matrix by incorporating renewable energy sources. More recently, there has been progress on improvements facilitating investments in productive activities and promoting the strategic planning of investments through the Infrastructure Fund. The IDB supported some of these reform processes. For a more complete description of the reform agenda, see Table 1-Annex.

2.11 **The new Chile Vamos coalition government took office in March 2018, having won the second round against the incumbent party's candidate with 54.5% of the votes.** The priorities set by the administration's program include: (i) returning to growth, creating jobs, and increasing wages; (ii) improving quality and access to health services; (iii) improving educational quality; (iv) reducing crime, drug trafficking, and terrorism; and (v) ensuring better treatment for children and the elderly.[20]

III. THE IDB WITH CHILE

A. IDB Country Strategy with Chile 2014-2018

3.1 **The Country Strategy for the period 2014-2018 was approved in October 2014. It was based on a diagnostic assessment that emphasized the slowdown in convergence towards advanced countries' level of development.** According to the country strategy's diagnostic assessment, Chile is at a critical phase of its development, namely the "middle-income trap," characterized by slowing economic growth and lagging productivity levels, which hinder its transition to a higher value-added economy. In this context, the country strategy identified a window of opportunity for the IDB to develop a program that can be used as a model for other countries also making the transition to a high-income economy. According to the country strategy: "The challenge for the Bank is to maintain its position as a strategic development partner, exploring new niches for intervention and innovative mechanisms designed for a country with the economic and social characteristics attained by Chile. This will also allow the Bank to support good practices and facilitate their dissemination within the framework of South-South cooperation." The 2014-2018 country strategy's objective was to

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[19] Similarly, social inclusion surveys (SENAMA, 2015) show that 75% of Chileans do not believe the country's health and pensions systems are ready to meet the challenge of the population's longer life expectancy.

[20] http://programa.sebastianpinera.cl/.

support the “Chile de Todos” [Chile for All] 2014-2018 Government Plan to achieve inclusive, sustainable growth. To this end, work on three strategic pillars was proposed: productive development and competitiveness with emphasis on competitiveness and innovation, energy, and public management, human capital development with emphasis on education, job training, and health, and regional development with emphasis on regional equity (Table 3.1). The IDB Group’s private-sector windows were to leverage business opportunities in the priority areas identified in the country strategy.

Table 3.1 - Sector priorities in the 2014-2018 Strategy

<table>
<tr><th>Government program</th><th>Priority areas</th><th>IDB strategic objectives</th></tr>
<tr><td colspan="3">PRODUCTIVE DEVELOPMENT AND COMPETITIVENESS</td></tr>
<tr><td rowspan="3">Foster enterprise-level innovation and competitiveness in support of dynamic and inclusive development, requiring innovative state management that ensures the conditions for competition and social welfare.</td><td>Competitiveness and innovation</td><td>• Improve the institutionalization of Chile’s National Innovation System
• Fostering innovation
• Fostering business innovation
• Improved SME management and productivity</td></tr>
<tr><td>Energy</td><td>• Development of electric generation capacity
• Improve energy efficiency</td></tr>
<tr><td>Public management</td><td>• Strengthen public management to prepare the state for growing citizen demands</td></tr>
<tr><td colspan="3">HUMAN CAPITAL DEVELOPMENT</td></tr>
<tr><td rowspan="3">Support education reform by seeking to improve the quality and coverage of the education system and support employability programs, particularly for women and young people</td><td>Education</td><td>• Increase access to early childhood education services
• Improve quality and equity in the education system</td></tr>
<tr><td>Job training</td><td>• Improve labor participation and employability among the groups that are most vulnerable in terms of employment</td></tr>
<tr><td>Health</td><td>• Increase public financing in health care provision
• Strengthening of primary health care
• Strengthening of human resources</td></tr>
<tr><td colspan="3">REGIONAL DEVELOPMENT</td></tr>
<tr><td>Support the government in a process of effective decentralization, in turn supporting greater regional development</td><td>Regional equality and development</td><td>• Strengthen regional government
• Improve housing conditions in less-developed areas of the country
• Improve the efficiency of Instrumentos de Planificación Territorial [Land Planning Instruments] (IPTs) for urban and economic planning, and ensure that these are up to date</td></tr>
<tr><td rowspan="2">CROSS-CUTTING AND DIALOGUE AREAS</td><td>Development of indigenous peoples and gender</td><td>• Enhance indigenous cultural heritage
• Support for the individual and collective rights of the indigenous population
• Launch renewable energy projects in indigenous areas with indigenous participation</td></tr>
<tr><td>Dialogue areas</td><td>• Transportation and Logistics
• Natural disasters
• Tax reform
• Regional integration</td></tr>
<tr><td colspan="3">Source: 2014-2018 Country Strategy.</td></tr>
</table>

3.2 **The 2014-2018 country strategy identified two main risks to IDB program execution.** First, political and social risks associated with the ambitious reform agenda proposed by the government. Second, risks associated with the changing priorities for the country's debt strategy, particularly in relation to multilateral banks. To mitigate the political and social risks, the country strategy proposed a program design consistent with the country's reforms, with flexibility so they could adapt to the government's needs and requirements. To mitigate the second risk, the country strategy proposed maintaining a close dialogue with the government.

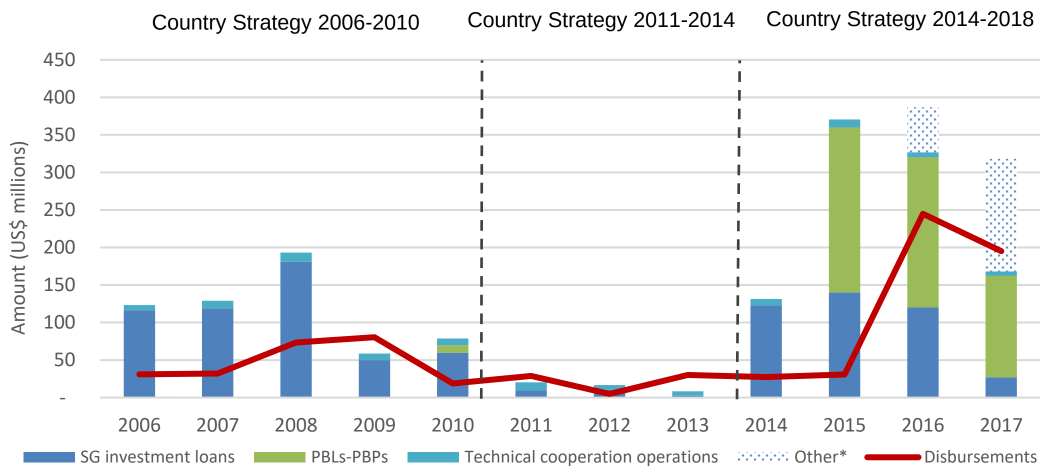
B. The Bank's operational portfolio

3.3 **Between January 2014 and December 2017, the Bank approved US$1.175 billion in sovereign guaranteed loans (equivalent to US$293 million a year), doubling the level of approvals defined in the country strategy's lending framework.**[21] The Bank had anticipated sovereign guaranteed (SG) approvals totaling approximately US$500 million for the period 2014-2018. In this scenario, gross disbursements were expected to reach US$381 million with a positive net capital flow for the IDB of around US$27 million. In practice, gross disbursements over the period 2014-2017 were around US$855 million, with net capital outflows from the Bank of US$191 million in 2017. The higher levels of approvals were in response to increased borrowing demands. The fiscal deficit exceeded the base case scenario projection. Although the debt policy put the emphasis on bond issues on national and international markets to provide the treasury with liquidity, the IDB found space for financing that enabled it to exceed the average approvals in the two previous cycles (Figure 3.1). The Bank also approved US$32 million in nonreimbursable technical-cooperation funding and provided technical support through fee for service (FFS) arrangements. Chile is the country with the most fee for service projects.[22] Lastly, Chile appears as a participant/beneficiary of more than 300 regional technical cooperation operations.

[21] Over the same period the World Bank approved US$277.5 million in six operations. CAF does not have any loans in Chile.

[22] Of the 15 FFS operations, Chile approved five for an average amount of US$273,000.

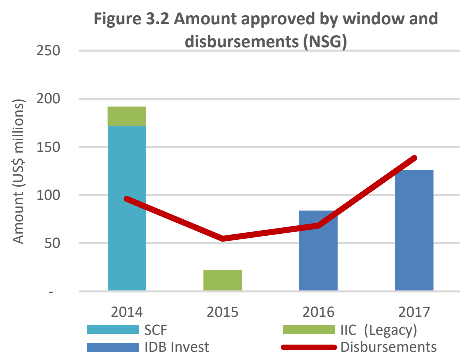
Figure 3.1 Amount approved by type of instrument and disbursements (SG)



* Includes a guarantee (CH-L1105) and two regional projects (RG-L1074 and RG-L1116).

Source: OVE (corporate databases).

3.4 **Over this period the Bank also approved US$424 million in non-sovereign guaranteed (NSG) loans.** This sum corresponded to 24 loans via the various private-sector windows: the former Inter-American Investment Corporation (IIC) with loans for US$42 million, the now defunct Structured and Corporate Financing Department (SCF) with loans for US$172 million, and IDB Invest with loans for US$210 million (Figure 3.2).[23]



Source: OVE (corporate databases).

3.5 **In terms of instruments, the distinctive feature of this period is the use of policy-based loans (PBLs and PBPs).** Indeed, of the total volume of US$1.175 billion approved between 2014 and 2017 (sovereign guaranteed), almost half was in the form of PBPs-PBLs (six operations for US$555 million).[24] Investment loans represented 53% of total approved resources (nine operations for US$620 million). In sector terms, the priority areas of productive development and competitiveness, and human capital concentrated two thirds of approvals. The productive development and competitiveness portfolio (US$728 million) mainly comprises SG and NSG[25] loans in the energy sector (52.5%), while the human

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23 Two credit lines were also approved under the Trade Finance Facilitation Program (TFFP) for a total of US$60 million. For its part the Multilateral Investment Fund (MIF) approved 16 projects for US$11 million.

24 PBLs/PBPs supported reform in the energy, public management, education, and competitiveness sectors, and also supported modernization of job placement systems.

25 The NSG portfolio could be considered almost entirely concentrated on the objective of productive development and competitiveness: 57% electricity sector, 22% commerce (TFFP), 15% productivity and innovation, including leasing and factoring.

capital portfolio is mainly concentrated in SG loans in education (68.2%) and labor markets. The regional development portfolio was relatively small. The distribution of technical cooperation operations across the priority areas generally followed the composition of the loan portfolio.

3.6 **The evaluation includes projects from the legacy portfolio.**[26] This comprises six loans for US$152 million in the SG portfolio, 20 operations for US$447 million in the NSG portfolio and 34 technical cooperation operations for US$17 million. Of the legacy portfolio, 95% is concentrated in the energy (61%, mainly NSG operations), urban development (20%), and reform and modernization of the state (14%, mainly SG operations) sectors.

IV. EVALUATION QUESTIONS

A. Dimensions evaluated

4.1 The CPE will use the traditional relevance, effectiveness, and sustainability evaluation criteria (OECD-DAC) and will seek to answer specific questions for the case of Chile in order to obtain lessons informing the next strategic cycle.

1. Relevance

4.2 **Relevance measures the extent to which the objectives of the Bank's program are aligned with the country's long-term needs.** Relevance should also take the country's changing needs into account. Guiding questions:

- What was the **IDB Group's strategic positioning** to respond to the needs of a high-income economy like Chile? To what extent was the program consistent with the approach of "exploring new niches for intervention and innovative mechanisms designed for a country with the economic and social characteristics attained by Chile" proposed by the country strategy?
- What was the **relevance and "value added" of the IDB Group's support through its financial and nonfinancial instruments?** How does the range of financial and nonfinancial instruments offered compare with that in other countries with similar characteristics? To what extent does the IDB Group have appropriate instruments to address the needs of a customer like Chile? In what ways has the IDB added value?
- Did the country strategy serve as an instrument to guide the IDB's **knowledge agenda** in the country?
- Were the **country strategy's objectives relevant and realistic** relative to the country's needs as expressed in its government plan? How was the IDB Group positioned in relation to the government's ambitious reform agenda? To what extent was the IDB portfolio aligned with the country strategy's strategic objectives? What factors explain the difference between the country strategy lending framework and the approved program?

[26] The legacy portfolio comprises all the active projects with some form of transaction in the Loan Management System (LMS) during the evaluation period, in the case of SG loans, and those with some form of disbursement during the period, in the case of NSG loans.

2. Implementation and effectiveness

4.3 **The analysis combines the concepts related to obtaining the program outcomes: project implementation and their effectiveness.** Implementation includes both efficiency issues and crosscutting factors, such as the quality of technical and administrative support. Effectiveness refers to the extent to which the agreed program objectives were achieved and to the effectiveness of its interventions. Guiding questions:

- **How efficiently were the IBD's projects implemented?** What were the main factors (internal and external) that affected portfolio execution in Chile? How did these factors affect the cost structure of operations (payment of commitment fees)? What were the **transaction costs** of the IDB portfolio in Chile?
- **How much progress was made towards achieving the country strategy's strategic objectives?** How effective was the IDB Group's portfolio in Chile? How effective was the use of PBLs in supporting reform processes? How effective was the use of technical cooperation to support the design and execution of the portfolio of loans proposed in the country strategy? How effective was the use of technical cooperation and FFS arrangements in generating quality knowledge products meeting Chile's needs and demands?
- How **effective were the private-sector windows** for the IDB program with Chile? How effective was the coordination between the IDB Group's public and private sector windows?
- To what extent was the **IDB effective in developing a business model tailored** to the characteristics of a customer like Chile? What **lessons learned** arose from program implementation and the business model proposed in the country strategy for this period?

3. Sustainability

4.4 **Sustainability refers to the likelihood that program results will persist in the long run.** Guiding questions:

- **To what extent did the Bank anticipate sustainability risks in the design of the country strategy and lending operations?** What mechanisms appear to have contributed, whether positively or negatively, to the sustainability of the program outcomes? How sustainable is the IDB Group's business model in serving a customer like Chile?

B. Sources of information and methodology

4.5 **The evaluation will draw on an array of information sources. As far as possible, the evaluation methodology will include both quantitative and qualitative analysis of the Bank's work.** The sources of information will include interviews with key respondents: current and former government civil servants, individuals involved in executing projects, Bank sector specialists, beneficiaries of IDB Group projects, members of academia and the private sector. The programming and loan documents will be analyzed, along with IDB Group supervision and evaluation instruments, as well as the Evaluation Recommendation Tracking

System (ReTS). OVE will review the available impact evaluations on IDB-Group-funded programs and supplement the documentary review with information from internal and external databases. OVE will also conduct interviews, surveys, and focus groups to extract more information and spur debate on the Bank's role in the country.

4.6 **The Country Program Evaluation will be carried out by a multidisciplinary team under the supervision of the director of OVE.** The team will include Verónica González Diez, project team leader Juan Manuel Puerta, Agustina Schijman, Odette Maciel, Regina Legarreta, Claudia Figueroa, Juan Felipe García, and Angelica McInerney from OVE, and local consultants will be hired for specific topics. To ensure the relevance and usefulness of the evaluation, the team will establish a fluid dialogue with the Bank's Management and, in particular, with the management of the Country Department Southern Cone, the Country Office in Chile, and IDB Invest. The timetable of the evaluation has been designed to tie in closely with the decision-making process for the Bank's new strategy.

Activity timetable

Activity	Date
Identification mission	26 February – 2 March 2018
Approach paper	March 2018
Project analysis	February to April 2018
Evaluation mission	April 2018
External review (IDB Management and Government)	June 2018
Presentation to the Board's Programming Committee	August 2018

ANNEX

Table I.1. Main areas of sector reform

Tax	**The tax reform enacted in 2014 and in effect since 2016 aims to increase tax collection so as to be able to finance permanent expenditure, such as improving all levels of education, while combating tax avoidance and evasion, and creating a more equitable tax system, where the taxes depend on taxpayers' level of income.**
Labor	The new Labor Relations Law, enacted in 2016 and in effect since 2017, has the central goal of developing a modern, fair, and balanced relationship between employers and employees that simultaneously combines the objectives of equity, efficiency, and productivity. The reform focuses on four main pillars: expanding the coverage of collective bargaining, union leadership of collective bargaining, expansion of the right of unions to information, simplification of the procedures for regulated negotiations and the right to strike, negotiation floors, and expansion of the subject matter of collective bargaining.
Education	The forerunner of the education reform was the passing in 2011 of the Law on the National Educational Quality Assurance System, which created the system regulating quality at the preschool, elementary and secondary levels. The Inclusion Law, enacted in 2015, gradually eliminated: (i) family copayments for children at state-subsidized elementary and secondary schools; (ii) student selection, creating a centralized application system; and (iii) profits, whereby schools are gradually converting into not-for-profit educational corporations. The Law on Preschool Education, in effect since 2015, aims to strengthen the first level of education and improve coordination between the various actors. In 2016, the passing of the Teaching Profession Law created a system of professional development for teachers. The New Public Education System, enacted in 2017, created a new institutional structure for education in which public kindergartens, elementary schools and high schools will gradually cease to be municipally managed. The enactment of the Higher Education Reform in 2018 established universal free higher education to be phased in by 2020.
Energy	Reforms begun in previous periods were deepened. The main areas are: (1) Improving competitive bidding processes with electricity distributors (Law 20805, 2015), strengthening the incentives for investment in electricity generation—particularly from renewable energy sources; (2) the new Electricity Transmission Law (Law 20897, 2016), improving the definition of time slots and facilitating investments in transmission, which historically lagged behind in Chile; (3) the Electricity Distribution Law (not yet passed), updating the legal framework for the incorporation of recent technological changes (demand management, distributed generation, electric mobility).
Productivity	A series of measures was taken to facilitate financing of investments in productive activities (establishment of new credit lines targeting smaller companies, creation of a single system for secured transactions, creation and/or strengthening of productive development agencies, such as the National Productivity Commission, inter alia), to boost service exports (including tax changes and simplification of formalities) and reduce bureaucracy (creation of electronic platforms to integrate formalities, such as the “Escritorio Empresa” (Business Desk), and promote the use of the advanced electronic signature, among other measures).
Infrastructure	The Infrastructure Fund, approved by the Congress in January 2018, aims to promote strategic planning of investments, foster and expand infrastructure investments in Chile, and promote public-private partnerships. The main contribution to this will be the national public use goods and fiscal goods currently operated through concessions, such as highways and roads. The Fund should be a solvent company with positive private returns. The Fund will have corporate governance.
Telecommunications	Efforts to narrow the digital divide through the 2020 Digital Agenda.

Competition Law	The new Competition Law (20,945) was published in 2016. Many of the measures included in this initiative were recommendations made in 2012 by the Presidential Advisory Committee for the Defense of Free Competition. The most significant changes include granting more powers to the National Economic Prosecutor, and a substantial increase in the size of fines applicable for violations of the law. The possibility of criminal prosecution of collusion has also been introduced.
Probity and transparency	This reform began in 2009 with the Transparency Law. In 2015, the Government of Chile created the Presidential Advisory Committee on Conflicts of Interest, Influence Trafficking, and Corruption, which proposed more than 230 policy recommendations to make headway on transparency and probity issues. The goals of the reform include: extending the number of posts subject to declarations of assets and interest, and stiffening the fines and sanctions for anyone who violates the regulations.
Decentralization	The main reforms in this area include: constitutional reform on the democratic election of the executive branch of regional governments (2016); the Law on the Strengthening and Professionalization of Municipal Management, enacted in 2016.

Source: OVE, based on IMF Article IV, December 2016 and other sources.

Note: The IDB only supported some of these reform processes in the energy, probity and transparency, and competitiveness sectors and certain aspects of education reform.