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***Country Program Evaluation  
Chile 2006-2010***

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***Office of Evaluation and Oversight, OVE***

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## ANNEX

Country Program Evaluation, Chile 2006-2010. Complementary Report

### **ELECTRONIC LINKS, COMPLEMENTARY REPORT**

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## ABBREVIATIONS

|         |   |
|---------|---|
| ARDPs   | Regional Production Development Agencies                          |
| BCN     | Chilean Congressional Library                                     |
| CAPJ    | Judiciary Administrative Corporation                              |
| CCLIP   | Conditional credit line for investment projects                   |
| CNIC    | National Council on Innovation for Competitiveness                |
| COF/CCH | IDB Chile Country Office  |
| CONAF   | National Forest Service   |
| CORFO   | Chilean Development Corporation                                   |
| CPE     | OVE Country Program Evaluation                                    |
| CRDPs   | Regional Production Development Corporations                      |
| CS      | IDB Country Strategy  |
| CTNR    | Nonreimbursable technical cooperation                             |
| CTR     | Reimbursable technical cooperation                                |
| DIPRES  | Budget Directorate, Ministry of Finance                           |
| DIRECON | Directorate of International Economic Relations                   |
| DNSC    | National Civil Service Directorate                                |
| FNDR    | Chilean Regional Development Fund                                 |
| GDP     | Gross domestic product  |
| GEF     | Global Environment Facility                                       |
| GFCF    | Gross fixed capital formation                                     |
| IFIs    | International Financial Institutions                              |
| IIC     | Inter-American Investment Corporation                             |
| IT      | Information technology  |
| LAC     | Latin America and the Caribbean                                   |
| MIF     | Multilateral Investment Fund (IDB Group)                          |
| MSMEs   | Micro, small, and medium-sized enterprises                        |
| NFP     | Nonfinancial product (IDB)  |
| NIS     | National Innovation System  |
| OECD    | Organization for Economic Cooperation and Development             |
| PCR     | Project Completion Report (IDB)                                   |
| PDL     | Performance-driven loan (IDB)                                     |
| PEF     | Project Preparation and Execution Facility [lending product code] |
| PROPEF  | Project Preparation and Execution Facility                        |
| PPMR    | Project Performance Monitoring Report (IDB)                       |
| PRG     | Programming support product (IDB)                                 |
| PRI     | Private Sector Department (IDB)                                   |
| PSL     | Private-sector loan (IDB)   |
| SEF     | Sector facility (sector facility loan) (IDB)                      |
| SGE     | Senior Government Executive                                       |
| SMEs    | Small and medium-sized enterprises                                |
| SSPS    | Social Security Division, Ministry of Labor                       |
| SUBDERE | Regional Development and Administration Bureau                    |

|     |                                 |
|-----|---------------------------------|
| TC  | Technical-cooperation operation |
| TFP | Total factor productivity       |

## FINDINGS AND RECOMMENDATIONS

### I. PROGRAM CONTEXT<sup>1</sup>

- 1.1 A suite of economic reforms to facilitate smooth market operation coupled with deeper global economic integration left Chile solidly positioned and substantially more resilient to external shocks. Thanks to that strategic combination successive administrations were able to increase transfers to the highest-needs sectors and parts of the country, with priority to efficient allocation of public budget monies. These macroeconomic policies, which have enjoyed broad and steady political and public backing, have been critical during chapters of faltering growth (1990, 1997/98, 2009).
- 1.2 At the start of the Bank's programming period (2005/06) the overarching identified development challenge was that Chile's post-reforms growth performance was trailing historical levels. Reliable indicators suggested that the development model was losing currency on the structural and not just the cyclical plane.<sup>2</sup> Growth rates were viewed as too low to be able to address the country's development problems and keep it on track to achieve the advanced-economy status to which it aspires.
- 1.3 By virtue of its international positioning approach Chile's output basket was undiversified, with a heavily commodity-reliant export matrix, low technology adoption, and little production innovation. This situation, coupled with wide education quality gaps with the advanced economies and an underdeveloped institutional base to foster public-private partnering, led to protracted productivity stagnation.
- 1.4 Another key concern was the country's slow progress on improving income distribution, social exclusion, and glaring regional disparities in access to essential services. Together those inequities were leaving major segments of the population and large parts of the country with unequal opportunities. The existing social safety net was not tackling employment problems which, without the right reforms, would worsen inequality and productivity constraints.
- 1.5 Institutional governance capacity differed significantly across the different tiers of government. Chile has well-designed, sustainable-development-oriented institutions and governance.<sup>3</sup> It also is a good public policy school, the decision focuses being quality and the long run.
- 1.6 Chile's public administration is underpinned by a bureaucracy with a modern, efficient management corps and a more traditional operations and administrative

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<sup>1</sup> For a more detailed discussion see chapter I of the appended Complementary Report.

<sup>2</sup> A scenario characterized by a flattening of productivity and output growth rates, which slow but do not fall back.

<sup>3</sup> Chile is a rule-of-law State with low corruption, sound regulation, and very efficient macroeconomic, fiscal, and debt management.

corps that has operational capacity shortcomings in some areas. Technical and institutional capacity disparities at the subnational government level have been the rationale for centralizing government operations as a way to ensure public program oversight, despite the efficiency gains that would come with a shift in that vision.

- 1.7 Assessments of governance effectiveness are looking more at efficiency of resource management to deliver budget program outputs than at measuring their impact on the end-recipients.

## II. THE PROGRAM WITH THE BANK

- 2.1 In recent years the Bank has experienced problems in adapting its strategic engagement with Chile, which views the Bank-country relationship differently than most of the Bank's borrowers. Chile has deep public policy expertise and the technical capabilities to design its own projects, and its private sector is a prominent player in pursuing the country's preeminent development challenges.
- 2.2 Chile's public systems have earned confidence for their high technical caliber and fiduciary standards. The country's goal is to catch up to the lower-income advanced economies in the next 15 years.<sup>4</sup> Since development finance is not a problem, that is not the focus of the Bank's cooperation support.
- 2.3 All this has made it complicated to establish outcomes of the Bank's strategic engagement with Chile. The difficulty in discerning the Bank's goal function has been one of the chief constraints in framing its country strategy (CS). The assistance sought by Chile and the technology it aspires to incorporate in its relations with the Bank are more cross-cutting than sectoral,<sup>5</sup> whereas the Bank's programming logic is more sector- and project-focused.<sup>6</sup> As a result of this approach mismatch the CS charted many and too diverse goals, diluting its delivery synergies and making it more difficult to accurately gauge the Program results.<sup>7</sup> Together these factors kept the Bank from positioning itself as a stronger value-adder.<sup>8</sup>

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<sup>4</sup> In PPP-adjusted GDP per capita.

<sup>5</sup> The country is interested in next-generation organizational models, sustainable institutional capabilities, knowledge transfer and information on comparable experiences, outcomes analysis, and deliverability of public programs with insufficient sectoral or regional ownership.

<sup>6</sup> See chapter II, section B, of the appended Complementary Report, particularly paragraphs 2.9 to 2.14.

<sup>7</sup> In a niche engagement less consideration is given to the sum total of variables that bear on the issues being addressed and the importance of interactions in development issues.

<sup>8</sup> See chapter II, section A, of the appended Complementary Report.

### Chile. Political economy of the country strategy

| IDB value-added   | Weighted by number of loans <sup>1/</sup>  |  |       | Weighted by approval amounts <sup>2/</sup> |                              |       |
|---|--|--|-------|--|------------------------------|-------|
|   | Approvals<br>2000-2006<br>CS <sup>3/</sup> | Approvals<br>2006-2010<br>CS <sup>4/</sup> | TOTAL | Approvals<br>2000-2006<br>CS               | Approvals<br>2006-2010<br>CS | TOTAL |
| Honest broker for complex issues and neutrality   | 44%  | 100%                                       | 75%   | 15%  | 100%                         | 85%   |
| Specific expertise in design of public policy delivery projects   | 33%  | 27%  | 30%   | 18%  | 25%                          | 23%   |
| Discipline. Ability to organize operations delivery, particularly where different players and coexecuting agencies are involved | 67%  | 100%                                       | 85%   | 38%  | 100%                         | 89%   |
| Policy legitimation or validation   | 44%  | 18%  | 30%   | 52%  | 18%                          | 24%   |
| Reducing public policy reversibility  | 44%  | 45%  | 45%   | 17%  | 30%                          | 28%   |
| Flexibility. Lowering of transaction costs  | 67%  | 82%  | 75%   | 62%  | 82%                          | 78%   |
| Transfer of country lessons   | 78%  | 36%  | 55%   | 41%  | 28%                          | 30%   |

<sup>1/</sup> 20 loans approved or executing substantially in 2006-2010.

<sup>2/</sup> US\$626.3 million equivalent.

<sup>3/</sup> Loans CH-0172, CH-0174, CH-L1001, CH-L1004, CH-L1005, CH-L1008, CH-L1009, CH-L1011, CH-L1012.

<sup>4/</sup> Loans CH-L014, CH-L1018, CH-L1019, CH-L1021, CH-L1022, CH-L1023, CH-L1024, CH-L1025, CH-L1026, CH-L1032, CH-L1033.

Source: OVE, from field work and interviews.

2.4 That lack of targeting did not present an obstacle to achieving the principal outcome sought by the CS, which was for programmed activities to be substantially implemented.<sup>9</sup> That relevance was essentially explained by the government's clear recognition of the Bank's value-added in implementing sustainable public management models and fixing coordination gaps in government programs.<sup>10</sup> That allowed for a high degree of correlation between the country's strategy and the

<sup>9</sup> Several CS goals were not translated into action: innovation and applied technology development, regulation of public and energy services, promotion of agricultural development, strengthening of the capital market, financing of the private sector, and increased production capacity of MSMEs. This did not weaken the relevance of the CS because for the most part, specific interventions had not been planned in these areas.

<sup>10</sup> The national counterpart played a key role in implementing the CS. In various operations, it realigned problems derived from overly broad objectives, unrealistic deadlines, duplication of activities, and lack of coordination. Examples are those of the Regional Production Development Agencies (ARDPs), the Directorate of International Economic Relations (DIRECON), some CCLIP sector investments, and the Tourism Support Program.

- Bank's CS, so that a program that was small in terms of resources would not be irrelevant in terms of results.<sup>11</sup>
- 2.5 The "country focus" pursued in the Bank's realignment is still not deeply enough embedded to bolster the more qualitative and cross-cutting "in situ" coordination that comes out of the political economy of the Bank's strategic engagement with Chile. That restructuring's impact on transaction costs continues to be high, not because of the procedures and products used but, basically, owing to problems associated with the Bank's overall operation. The evaluation team found evidence of increases in internal transaction costs,<sup>12</sup> leaving a more fiduciary than substantive image in a country where technical work and knowledge are a strategic asset.<sup>13</sup> Knowledge programming focused on identifying development challenges and on diagnostics or specific project design dimensions—in other words, what to do or act on. There was no comparable preinvestment in knowledge about delivery of public initiatives or to extract lessons to explain why the anticipated Program results were or were not delivered.<sup>14</sup>
- 2.6 Chilean decision-makers and analysts view the country's engagement with the Bank as one of collaboration and receptiveness to their ideas. The Bank's realignment was viewed as a sound long-run approach to help countries pursue decentralization agendas, but disparities observed in the embedding of the new structure created uncertainty about the extent of the Bank's operational decentralization. Noted in particular were: (i) confusion about authority for allocation of resources and the in-country budget; (ii) an incomplete understanding of the country's long-range development transformation model;<sup>15</sup> and (iii) delegation to the Country Office of decisions on portfolio administration and setting of limits on operations' resources and their disbursements.
- 2.7 The Bank found the public policies designed by the country with the requested Bank support to be sound and sufficient, and its assistance unquestionably was useful. However, the evaluation team found no CS performance analysis or assessment that

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<sup>11</sup> The achievement of results was facilitated by its role in coordinating among the participants in public programs and providing discipline and reliable execution standards for the country. The transfer of knowledge and innovative experiences became less important during this period. Although the operations generally reflected policies with broad consensus in priority areas, the technical solutions that were supported were not always optimal. There were cases in which Program results were compromised because conflicts of interest could not be overcome.

<sup>12</sup> According to Chile Country Office (COF/CCH) staff time use reported in the TRS, the hours spent on administrative support quadrupled between 2006 and 2009 whereas time spent on corporate management tasks fell fivefold, reflecting a change in proactivity and increasing service to "in-house clients" in a matrix organization that is wider in terms of management units and deeper, which requires more coordination and authorizations.

<sup>13</sup> For some examples see the appended Complementary Report, paragraphs 1.13, 2.3, 2.5, 2.12, 2.13, and 3.27, among others.

<sup>14</sup> Knowledge programming is important not just to help decide what to do but to adopt and adapt next-generation delivery models and be able to learn from evaluations of experiences.

<sup>15</sup> See 2.12 and subsequent paragraphs of the appended Complementary Report.

provided sufficient metrics to explicate the Program's specific value-added contribution to the aims pursued by those policies.<sup>16</sup> These analytical shortcomings impede the measurement of gains effectively achieved in the strategic engagement, and the reason for the differences between the "optimum" and the "possible" and whether what ultimately was achieved was the best result for the end-beneficiaries remains an open question.

### III. COUNTRY PROGRAM RESULTS

- 3.1 The CS proposed that the Bank assist Chile's efforts to catch up to the advanced economies in four areas that constituted the development challenges to be pursued, and laid out 17 goals and 35 means of achieving them.<sup>17</sup> The four overarching challenges were to: (i) reduce opportunity gaps for the most vulnerable population groups; (ii) reduce competitiveness and income gaps with the advanced economies; (iii) make government more efficient and bring it closer to the citizenry; and (iv) implement a new Bank business model with Chile.
- 3.2 The Bank understood the issues of concern to Chile and proposed, with its support, to help cement a sustainable social protection state, institute a new development model more focused on technology change and innovation, and reduce governance disparities across the different sectors and tiers of government.
- 3.3 It was difficult to match projects' results with the results of the program of which they formed part. The measure of projects' results was efficiency of their outputs, not their contribution to the development challenges to which they were associated. The Program results, for their part, had been framed by reference to their impact on country challenges, but the metrics provided were insufficient to discern the impact of the Bank actions toward those challenges, creating evaluability constraints.<sup>18</sup> Consequently, the scale of the CS goals did not match the scale of support the country sought from the Bank and there was a mismatch between their design and their anticipated value-added contribution. As a compounding factor, the CS results were not lined up to the findings of the country's own programmatic evaluation, which was not availed.
- 3.4 These problems created stress for the sustainable development effectiveness focus pursued by the Bank. In the end, the approach used associated results to delivery of outputs that improve efficiency of government national budget programs. We found no sufficient analysis of end-beneficiary and stakeholder perceptions of the Bank-

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<sup>16</sup> The CS evaluability was found to be low.

<sup>17</sup> See 2006-2010 Chile Country Strategy Matrix in the annex to chapter II of the CPE Complementary Report.

<sup>18</sup> We found that no suitable metrics had been provided to report the effect of the actions—many of which did achieve good results—on inequality of opportunity or the welfare of the target populations of the country programs to which the Bank's projects had contributed. The missing metrics made it difficult for the Program, and in less measure the projects, to benefit from the evaluation. There are no regularly reported relevant analytical data to show whether what is working is sustainable and how the roadblocks to construction of the long term were affected.

- supported outcomes or outputs, so information is missing on an important lesson for assessing what the policies sought to accomplish and reporting progress toward the problems that had prompted their enactment—namely, how those parties take up and absorb the programs. That information shortfall affected the quality of the analysis and lessened the potential to better demonstrate the Program’s effectiveness.
- 3.5 Given the foregoing, this evaluation of Program results focused on projects’ contribution to the value-added the country sought in its engagement with the Bank<sup>19</sup> and, from that, inferred the effects on the Program development challenges and goals, as summarized below.<sup>20</sup>
- 3.6 The review of Bank interventions performed for the evaluation, though focused on the period 2006-2010, took a long-range view of the Bank’s work in Chile. In addition to public and private sector operations approvals (excluding IIC operations<sup>21</sup>) over that span we looked at projects that had been under way at the start of 2006 and executed substantially over the review period. All approved projects were reviewed, even if only a small part of their funding had been disbursed, since this was considered important to substantiate the Program’s relevance. We also looked at the contribution of the Bank’s nonfinancial products (NFPs) to results as well as projects in the pipeline at the time of the evaluation that anticipate the future Program. A specific ex ante analysis was done of operations approved recently or still substantially undisbursed, to project the benefits anticipated from the delivered Program.<sup>22</sup>
- 3.7 The Program achieved gains in the interventions that helped equip the public sector to **reduce opportunity gaps among the population** and **spur sustainable regional development**.<sup>23</sup> The projects to narrow opportunity gaps were innovative and produced acceptable outcomes. The Bank delivered support for management models and construction of accountable institutions with a distinct identity, one goal being to make these sustainable. Though gains clearly were achieved their sustainability is not demonstrated by any objective indicators. The assumption was that successful solutions to government priority concerns end up with permanent budget envelopes.
- 3.8 As for the Program’s sustainable regional development goals, the Bank continued its strategic partnering with Chile for regional advancement, which came in for the bulk

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<sup>19</sup> See chapter II, section A, of the appended Complementary Report.

<sup>20</sup> Chapter IV and, mainly, the annex to chapter IV of the appended Complementary Report provide breakdowns of the analysis by intervention, showing the weight of the results found for Program attribution purposes, how the constraints encountered impacted those results (risk analysis), and lessons derived in each case.

<sup>21</sup> Other OVE products have evaluated IIC performance.

<sup>22</sup> In all, 31 loans totaling US\$657 million (including 7 PROPEFs) were reviewed to produce this CPE. In terms of product totals, about 100 operations worth US\$686.8 million were examined, including TC grants, private-sector loans, and MIF operations.

<sup>23</sup> One of the core aims for the CS third development challenge of making government more efficient and bringing it closer to the citizenry.

of its funding over the review period. However, more important than its financing was its assistance to instill a new long-term subnational government investment culture, starting with the buildup of regional government institutional capacity.

- 3.9 One documented result is the setup in the Regional Development and Administration Bureau (SUBDERE) of information systems and mechanisms to manage the new investment logic in the regional governments. The Bank helped develop investment management models, with support for partnerships with private implementing agencies in sectors where there were disparities in access to specific basic services in a region. Each of the sector investments created distinct management models, helping to institute quality and cost standards. However, the outputs ended up costing more than planned and, if generalized across the larger public program to which they were associated, will need higher permanent outlays to make the objectives sustainable.<sup>24</sup> The higher costs were the result of insufficient regulation and at-entry diagnostics that failed to anticipate the investment administrators' capacity shortcomings.
- 3.10 For the challenge of **reducing competitiveness and income gaps with the advanced economies** the CS had proposed more goals than interventions, which made for fewer potential results—hence the large number of programming support product (PRG), nonfinancial product (NFP), and grant approvals that yielded lower returns vis-à-vis goal delivery.<sup>25</sup>
- 3.11 The following stand out among those goals: (i) support for creation of new mechanisms for public-private investment innovations at the regional level, more closely aligned to strategic priorities and taking a long-range view so that each initiative is planned and leveraged within sustainable management models, with closer coordination of the country's production development agencies to that end; (ii) strengthening of the external sector by enhancing capacity for administration of trade and free-trade agreements and support for selected industry clusters; and (iii) financing of the program to efficiently extend electricity service to off-grid rural areas and technical cooperation to help produce studies, institutional reforms, and demonstration projects to encourage new technology adoption to improve energy efficiency.
- 3.12 According to the evaluation findings, distinct regional strategic agendas were charted and valuable export development vehicles were devised but no specific private initiatives were generated to advance those agendas, and steps to fix coordination and market failures have begun only recently. Though these issues were acknowledged they were underemphasized in the diagnostic assessments behind the interventions' logic.
- 3.13 The country acknowledged as a core concern the existence of institutions, programs, and instruments that were not dialoguing, but the region-based approach to foster

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<sup>24</sup> The findings suggest that unless public spending is adjusted the sustainability of the objectives of the national programs supported could be compromised.

<sup>25</sup> See footnote 5.

- innovation and diversify production was not meshed with the national-level approach. There were convergences in objectives and participants in some of the Program components but the operations that materialized were not treated as synergistic ventures, until cross-institutional inconsistencies and poor communication created overlaps and conflicts that had to be addressed.<sup>26</sup>
- 3.14 No information was found to substantiate the objective of the operation to help make the Rural Electrification Program economically and institutionally sustainable. Noteworthy in that regard are the recommendations that came out of studies done for the energy sector's new institutional infrastructure, particularly the creation of the Chilean Energy Efficiency Agency.
- 3.15 In the case of the goal of **enhancing national governance efficiency**,<sup>27</sup> projects that had been approved during the previous administration were implemented in the period reviewed here. Most of them delivered the desired results, as originally proposed or reworked when priorities shifted. Technical standards and transparency of the services targeted for support were enhanced and services became more client-centered. Institutional capabilities for national functions were strengthened, respecting their independent operating logic within the public sector. Confidence in country delivery systems was bolstered as well.
- 3.16 The Bank's contribution was important not for the funding it supplied but because of its flexibility in realigning project and program goals and resources when required, the transfers of innovative experiences, and the timely articulation of solutions to implementation issues.
- 3.17 Where the results of CS goals **underperformed** it was because risks and institutional constraints had been poorly anticipated in the interventions in question, so their objectives and funding at entry were overscaled (for example the Valparaíso project, Digital Strategy, Transantiago urban transit program, Directorate of International Economic Relations—DIRECON, and Regional Production Development Agencies—ARDPs).<sup>28</sup> This created disbursement timetable slippages and uncertainty about the outcomes sought with the CS, causing stress for the new program.<sup>29</sup>
- 3.18 A review of recent approvals, for which a **results assessment would be premature**, found their designs to be aligned to the Program's purposes and to country

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<sup>26</sup> There was an underemphasis on the fact that outcome efficiency requires a streamlined and coherent institutional base, and prior legitimization of the authorities that interact to deliver the outcomes.

<sup>27</sup> This is another core goal of the challenge pursued by the CS of making government more efficient and bringing it closer to the citizenry. The project and program support focuses were the National Civil Service Directorate, Chilean Congressional Library, Judiciary Administrative Corporation, Comptroller General's Office, and Digital Strategy.

<sup>28</sup> Government risks were assumed when support was provided for decisions that, albeit reflective of valid development concerns, were addressed with a logic that failed to duly internalize the political-institutional constraints that had implications for results.

<sup>29</sup> Mostly because of the impact of the Transantiago project conflicting interests in delaying approval of operations in the Bank pipeline, which were still awaiting ratification by the new government.

- concerns.<sup>30</sup> One strategic sector addressed that had not been envisaged for support in the CS is transportation.
- 3.19 With regard to the aim of more timely and coordinated Bank **lending to the private sector**, the evaluation found few gains and one failure (Santiago Integrated Public Transport System—Transantiago<sup>31</sup>). Strong competition for the finance terms and rates available to Chile creates difficulties but does not preclude the pursuit of a successful strategy. These clients are more sophisticated than the average Bank client in the region and require more personalized attention. The slowing of advances in the concessions sphere, a result of the system’s reconfiguration and updating, shrank the space for engagement.
- 3.20 The importance accorded in Chile’s development model to engaging with micro, small, and mid-sized enterprises (MSMEs) was echoed in the CS but there were no Bank approvals in that area. The MIF program did make a significant contribution in the form of a concerted dialogue that crystallized in a sizable number of approvals over the review period.<sup>32</sup>
- 3.21 With regard to **MIF** support, when this evaluation was produced all projects approved in 2006-2009 were still executing, so it is too early to derive any firm findings or learnings. However, we were able to draw some findings from projects approved prior to 2006 that executed substantially in the review period. Implementation issues cited for those operations were “executing agencies’ problems in meeting the agreed timelines; institutional shortcomings of some executing agencies and their inability to get owners of small and medium-sized enterprises (SMEs) on the same page regarding the forward impact of some of these initiatives. Because of these executing agency capacity weaknesses it has been impossible to scale up or replicate the model.”<sup>33</sup> These reported issues are affecting ongoing projects but are being anticipated.

#### IV. DELIVERY OF THE PROGRAM

- 4.1 In the period 2006 to February 2010 the Bank approved 98 Chile operations totaling US\$669.1 million,<sup>34</sup> 12 of them public-sector loans that accounted for 77% of total funding. MIF projects made up 4% of the total, technical-cooperation (TC) grants

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<sup>30</sup> An analysis of these projects using ex ante evaluation techniques is presented in chapter IV of the appended Complementary Report and, in greater detail, in the annex to that chapter.

<sup>31</sup> See paragraphs 4.86 to 4.92 of the appended Complementary Report and the annex to chapter IV of that report.

<sup>32</sup> For details see paragraphs 4.45 to 4.47 of the Complementary Report and the annex to chapter IV of that report.

<sup>33</sup> See Juan Pablo Valenzuela Barros (2010), “Lecciones Aprendidas del Banco en Chile durante el gobierno de Michelle Bachelet (2006-2009) e Implicancias para una Nueva Estrategia del Banco en el País” [Lessons Learned by the Bank in Chile during the Bachelet Administration (2006-2009) and Implications for a New Bank Strategy with Chile]. Mimeo.

<sup>34</sup> Excluding the Transantiago project.

- 2%, and private sector loans 15%. The approvals total far surpassed the programmed high scenario of US\$585 million, mostly because of the increase in public sector targeted lending.
- 4.2 The average loan approval in 2006-2010 was US\$27.3 million. Total approvals by amount were close to the 2000-2005 country strategy span (US\$651.3 million) when the average loan had been slightly smaller (US\$24.4 million). Total approvals by number in 2006-2010 were up from the 2000-2005 period's 76 operations, largely due to the sharp increase in TC grants in the review period.<sup>35</sup>
- 4.3 Disbursements did not follow the approvals trend. In the 2006-February 2010 period the Bank disbursed US\$188.6 million; the 2000-2005 total had been more than triple that figure (US\$625.3 million).<sup>36</sup> This disbursement performance put the Bank's Chile loan balance at US\$412.7 million<sup>37</sup> at 28 February 2010.
- 4.4 With regard to the Program's implementation effectiveness, the inclusion of **progress on the Bank's business model** with the country as a CS development objective was new to Bank country strategies. Adding that content underscores the importance accorded to effective portfolio outcome delivery. The results in this case—like those of the other challenges pursued with the Program—were mixed, as summarized below.
- 4.5 In pursuit of the goal to make it more attractive to do business with the Bank, significant progress was made on alignment to country systems and tapping of flexible, results-driven lending and nonlending products. This was consistent with the objectives of the Bank's 2005 New Lending Framework and its realignment, though many of the gains have not been matched by changes in the same direction in Bank rules and requirements, especially where country system use is concerned.
- 4.6 Notable among the gains achieved are lower transaction costs in project design and administration, though less so in project implementation, albeit for other reasons.<sup>38</sup> The approved projects underperformed their results targets, affecting the pace of disbursements and internal consistency between the activities' budgets and their on-the-ground implementation. These, together with institutional risks that had not been duly anticipated at entry, were the main reasons for disbursement spans exceeding the previous Program averages.<sup>39</sup>

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<sup>35</sup> In 2006-February 2010, 52 operations totaling US\$11.7 million, up from 29 operations totaling US\$5.6 million in 2000-2005.

<sup>36</sup> Beyond the fact that the Bank's lending products had a different disbursement logic in the two periods (with PDLs and CCLIPs predominating in 2006-February 2010), paragraph 3.11 explains some of the reasons for the low disbursement figure. Further details are provided in the discussion of these projects in chapter IV.

<sup>37</sup> Including loans approved by the Bank in December 2009 and January 2010 that are awaiting country ratification.

<sup>38</sup> See chapter III, section B.1, of the appended Complementary Report.

<sup>39</sup> Chile had no financial constraints such as might have held up the projects: this was a period of high liquidity and the country set up sizable fiscal stabilization, pension, and innovation support funds. Hence, this reason cannot be used to explain disbursement timetable slippages.

- 4.7 With regard to the goal of greater productivity in Bank activities to help enhance lending quality, progress was made in dialogue and programming support.<sup>40</sup> As for the use of nonfinancial products (NFPs) associated with learning, transfer of experiences, and design innovation the gains were more modest. Virtually all the NFP supports were grant-based and not associated with loans; this creates a sustainable utilization issue for the future.

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<sup>40</sup> With a considerable number of programming support products (PRGs).

**Chile: Effectiveness of the program implementation model**

|   |  |  |   |      |     |
|---|--|--|---|------|-----|
| <b>A. Ownership by the country: partners set the agenda</b>   | 1. Partners have operational development strategic programs that include Bank loans  |  | (a) dummy   | 94%  |     |
| <b>B. Alignment with country strategy, systems and procedures, reducing transactional costs</b>                     | 2. Reliability on country systems (from diagnosis) for effective execution of Bank-financed operations and adherence to international standards and best practices | Fiduciary  | (b) Procurement                                   | 100% |     |
|   |  | (c) Public Financial Management  | 100%  |      |     |
|   |  | (d) External Control (Auditing)  | 100%  |      |     |
|   |  | Nonfiduciary   | (e) Development effectiveness of the Program      | 100% |     |
|   |  | (f) Environmental assessments <sup>1/</sup>  | 100%  |      |     |
|   |  | (g) Statistical systems  | 100%  |      |     |
|   | 3. Aid flows are aligned on national priorities  | (h) % of flows from loans included in the national budget or paid by national treasury systems   |   | 100% |     |
|   | 4. Strengthen capacity by coordinated support  | (i) % of Bank development support consistent with partners' national strategies  |   | 94%  |     |
|   | 5. Use of fiduciary and nonfiduciary country systems by projects on necessary actions to be followed when minimum technical standards are not met                  | (j) % of flows monitored by national accounting and reporting systems  |   | 100% |     |
|   |  | (k) % of financial flows of contracts made by national systems   |   | 0%   |     |
|   |  | (l) % loans subject to auditing by national systems  |   | 99%  |     |
|   |  | (m) % of loans subject to national environmental systems   |   | 79%  |     |
|   |  | (n) % of loans subject to national procurement systems   |   | 99%  |     |
| 6. Strengthen capacity by avoiding parallel structures implementation unit (PIU)                                    | (p) dummy - % of loans with project implementation unit (PIU)  |  | 18%   |      |     |
| 7. Aid is more predictable  | (q) % of aid disbursements released according to agreed plan   |  | 44%   |      |     |
| 8. Aid is untied: % of aid that is untied (unconditional)   | (r) % of aid that is untied  |  | 100%  |      |     |
| <b>C. Harmonization: donors implement common arrangements and simplify procedures to push for greater alignment</b> | 9. Use of common arrangements  |  | (s) % of aid provided as program-based approaches | 83%  |     |
|   | 10. Encourage shared analysis (in number of products)  | Missions   | (t) % of field missions, by type and year         |      | --  |
|   |  | Analytical work (PRG, NFP, TC and other knowledge studies), including joint or coordinated diagnostic reviews to innovate or develop interventions | (u1) input-output ratio                           |      | 2.2 |
|   |  |  | (u2) knowledge density ratio                      |      | 7.9 |
|   |  |  | (u3) nonreimbursable/reimbursable products ratio  |      | 9.6 |
|   | (u4) knowledge products composition (knowledge products related to CS/total knowledge products)  |  | 68%   |      |     |

|  |  |  |                                 |
|--|--|--|---------------------------------|
| <b>D. Managing for results: means managing and implementing aid in a way that focuses on the desired results and uses information to improve decision-making</b> | 11. Results-oriented frameworks: monitor progress against key dimensions of the national and sector development strategies | (v) % of progress demonstrability of the projects in monitoring reports (outputs and outcomes) regarding (a) targets or (b) baseline established (Project Evaluability Index)    | (a) 60%<br>(b) 71%<br>Total 60% |
|  |  | (w) % of progress demonstrability of the Country Strategy in monitoring reports (outputs and outcomes) regarding (a) targets or (b) baseline established (CS Evaluability Index) | (a) 31%<br>(b) 24%<br>Total 31% |
|  |  | (x) % of public services with Bank loans where their performance is reported by National Evaluation Systems  | 15%                             |

<sup>1/</sup> See in Annex to chapter III the Matrix of Loans Portfolio Reviewed and Use of National Systems.

4.8 The CS and project delivery risks were not adequately managed. There is little information on risk status or mitigation and a significant proportion of risks reported as having occurred had never been identified. No distinction is made between internal risks, which should be addressed in project components, and external risks, the assumptions having been built around the latter. These shortcomings affect risk mitigation and the ability to act quickly when risks emerge.<sup>41</sup>

**Risk management of the program products**

|                                    |                            |  |     |
|------------------------------------|----------------------------|--|-----|
| <b>Risk Management of Projects</b> | Risk Management Indicators | (a) % of risks identified at approval (with mitigation actions identified)           | 52% |
|                                    |                            | (b) dummy: loans where internal and external risks are distinguished                 | 0%  |
|                                    |                            | (c) % of risks occurred to date (progress reported in PPMR/PCR, mitigation reported) | 43% |
|                                    |                            | (d) % of unidentified at approval risks that occurred to date                        | 34% |
|                                    |                            | (e) % of unidentified risks that occurred to date                                    | 20% |

4.9 In the case of the goal of aligning the Country Office (COF/CCH) to the quality and resource requirements of the new business model with the Bank, the progress documented is not encouraging. An analysis of COF/CCH staff time, with comparable yearly totals, revealed an increase in time spent on administrative support tasks, a drop in the share of time spent on knowledge products, negligible time spent assessing development effectiveness, seasonal involvement in programming, and considerable time still being spent on operations design and implementation.<sup>42</sup>

<sup>41</sup> See chapter III, section B.3, of the appended Complementary Report.

<sup>42</sup> See chapter III, section B.4, of the appended Complementary Report.

- 4.10 Despite country dialogue efforts there was no progress toward the goal of local currency lending or securities issues because the Bank's participation proposal held no attraction from the standpoint of the country's finance and debt equation.

## V. MAIN RISKS FOR THE NEW PROGRAM

- 5.1 The advent of a new administration on 11 March 2010 marked a shift in a two-decade trend in Chilean governance. Mere days before, the country had been hard hit by an earthquake and tsunami. These exogenous events may well drive a major resource allocation shift, increasing the **risk of continuity** to deliver the results of the Program reviewed here.
- 5.2 Thanks to its sound fiscal and borrowing policy management track record the country had been able to cushion the recessive phase of the cycle the previous year, keeping fiscal spaces intact and absorbing the external shocks. The fresh vulnerabilities created by these exogenous events will not interrupt progress on the development agenda and maintaining of macroeconomic equilibria. The country has mature institutions and there are no major internal differences of opinion as to the strategic course it should follow.
- 5.3 Nevertheless, projects and resources might end up being realigned if they do not match the new administration's priorities or in the event of emergence of new demands or reviving of others that may not form part of the priority pipeline.
- 5.4 Such trend shifts could affect the preservation of the comparative advantages the Bank has offered till now in public program delivery support. A weakening of that role could be the main risk in the new programming cycle. Discontinuity in well-designed pipeline projects associated to accurately diagnosed development challenges would mean a significant setback for the strategic outcomes sought by the Program in the review period.
- 5.5 At the date of this evaluation there are facts to suggest that these portfolio continuity risks are materializing. To begin with, at 28 February 2010 the undisbursed balance of the Bank's Chile loans stood at US\$522 million<sup>43</sup> (US\$91 million in private-sector loans), which is equivalent to the CS's high-scenario approvals range for the administration's entire term (US\$350 million to US\$480 million), in a country that is not in need of Bank funding.<sup>44</sup> Competition for a rigid fiscal space requires that those resources<sup>45</sup> continue to be priority outlays for the new government. The size of this initial portfolio is a constraint for the new program, since borrowing is part of regular public expenditure finance that is competing for the same predetermined fiscal space as government priorities are shifting.

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<sup>43</sup> US\$232 million of the US\$522 million is for eight undisbursed project loans; six projects approved between November 2009 and January 2010 account for US\$110 million (US\$6.5 million in private-sector loans) of the US\$232 million.

<sup>44</sup> This is up substantially from the 28 February 2006 figure of US\$112 million.

<sup>45</sup> Mostly for the public sector.

- 5.6 A second fact is the approval of six loans for US\$110 million between November 2009 and January 2010, following the electoral change, which needed to be ratified by the new administration. The absence of full assurances that ratification would be secured added to the uncertainty. These operations were the fruit of a lengthy and complicated preparation and discussion exercise; their approval had been delayed by issues with the Transantiago project. In assuming these risks the Bank surmised that, given the importance of the development issues to which these operations were associated, they would remain priorities.
- 5.7 Those assumptions were not borne out. Of the above-mentioned US\$110 million in recent approvals, the new government gave notice that ratification proceedings would not continue for four of the loans worth US\$93 million (CH-L1033, CH-L1023, CH-L1022, CH-L1055) and that the public program supported by CH-L1019, with close to US\$8 million still undisbursed, would be discontinued. Technical-cooperation operation CH-T1079 was to be reformulated owing to a change in priorities of the current National Civil Service Directorate authorities.

## **VI. CONCLUSIONS AND RECOMMENDATIONS**

- 6.1 From the country's standpoint its engagement with the Bank is anchored in the following principles:
1. The Bank has the potential to develop the knowledge needed to design and deliver high-quality public policies and systems.
  2. Public-sector finance is not a problem in Chile and thus is not the focus of Bank-country relations. This does not preclude the possibility of private-sector finance or Bank participation in the capital market.
  3. The Bank has the ability to assist in public program delivery, monitoring, and evaluation.
- 6.2 According to the Country Program Evaluation findings the Bank faces constraints to articulate a strategy to effectively pursue that country support vision:
1. The Bank has no vehicle to finance knowledge products for Chile unless such products form part of a loan package.
  2. Virtually all knowledge transfer work to date has been grant-funded—something difficult to sustain in a country like Chile with a profile more akin to a nonborrowing country.
  3. Knowledge support has been lopsided, emphasizing knowledge to inform CS or project preparation (“what to fund”) over knowledge that could improve implementation efficiency and results delivery.
  4. The CS is organized more as a financial programming exercise with sector and project lending targets than as an articulated strategy in which different kinds of actions interact to pursue the development challenges.

5. Though the Bank's ability to facilitate public program delivery is recognized as its most important comparative advantage, the Bank does not see that importance, emphasizing funding delivery instead.
  6. The recognition of the Bank's value-added contribution is not automatically preserved from one administration to the next; it has to be understood and shared by each successive administration.
  7. The Bank does not have a private-sector finance strategy fitted to the country's production supply chain strategy.
- 6.3 The following are **recommended measures** to better align the Bank's strategy focus to the country's support vision:
1. Pursue actions to preserve and deepen the Bank's value-added to reduce coordination and market failures in public program delivery. Suggestions to that end are:
    - a. Strengthen the Bank's analytical role, developing knowledge products in these areas and drawing more on evaluation learnings.
    - b. Pursue strategic partnerships with other international organizations and knowledge centers to: (i) channel current knowledge of public policies and systems and (ii) leverage the Bank's comparative advantage and, hence, its lending, for the country's operations delivery.
    - c. Foster mutual development of public policy delivery quality (fresh approaches, analysis, interagency coordination for government performance delivery, tracking, and evaluation).
    - d. Promote the use of supervision and monitoring arrangements to assist the management and independent assessment of the country's transformation process.
  2. Adapt the programming model so the guiding consideration in the Bank's work planning will be the impact of its engagement on the country's development challenges. Suggested actions:
    - a. Incorporate a more qualitative and cross-cutting approach into the CS, adapting the current logic's focus on loans, amounts, and sectors.<sup>46</sup>
    - b. Build a programmatic approach into the Bank's products, emphasizing their interface and integration in addressing binding development constraints, recognized in budgets.
    - c. Complement the efficiency focus in program and project evaluation with a focus on effectiveness of their results.

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<sup>46</sup> One particularly important action niche is support to build up institutional capacity for public program delivery where coordination failures are an issue, particularly support for the decentralization agenda.

- d. Strengthen the Bank's overall operation to facilitate cross-cutting interaction across divisions and departments, without affecting internal equilibria and preserving unity in the conduct of corporate management.
  - e. Explore possibilities for more substantive decentralization in COF/CCH, with an emphasis on decisions regarding administration of the portfolio agreed with the country, knowledge, and fuller alignment to country systems.
3. Pursue the creation of a knowledge finance vehicle for Chile not associated with loans, as a separate Bank product.<sup>47</sup>
  4. Improve portfolio continuity risk management, acting on issues and in areas where there are legitimated long-term consensuses. The following are suggestions to that end:
    - a. In the dialogue address as a priority concern the importance of continuity of long-run actions pursued in the CS, to outlive administrations.
    - b. Produce explanatory guidelines and updated parameters regarding types of risks the Program faces and those assumed in the Bank's Chile engagement.
  5. Explicitly map out in the CS a complementary finance strategy and a system for engagement with the private sector based in the COF/CCH, with an emphasis on MSMEs and that sector's preeminent role in revamping the country's production apparatus. The central focuses should be diversification and innovation to boost productivity and seize the opportunities opening up with the expansion of trade.

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<sup>47</sup> This recommendation would supplement two existing vehicles: the Special Program of Reimbursable Highly Specialized Technical Assistance that recovers the costs to the country of Bank or other organizations' experts, in place since 2000; and the recently approved Knowledge and Capacity Strengthening Products (KCP). It is recommended that such a vehicle fund country-driven initiatives.



***ANNEX: Country Program Evaluation  
Chile 2006-2010***

***COMPLEMENTARY REPORT***

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*Office of Evaluation and Oversight, OVE*  
Inter-American Development Bank  
Washington, D.C.

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## I. COUNTRY CONTEXT AND DEVELOPMENT CHALLENGES<sup>1</sup>

- 1.1 Chile stands out in the region and across the world for its sound macroeconomic management and public policy conduct generally, for its remarkable economic growth performance, and for having slashed poverty figures. The country's recent admission to the OECD is a mark of the success of its model.
  - 1.2 A stable macroeconomy, deepening trade and financial integration, and foreign investment friendly legislation are considered the keys to the Chilean economy's high investment rates and robust growth performance. The combination of cumulative growth and specific policies has in turn enabled the country to slash poverty. In 1987, 23.42% of the population was living on less than two dollars a day (PPP adjusted); by 2006 just 2.37% of Chileans<sup>2</sup> fell into that income category—an improvement without precedent in the region. However, income distribution still is a serious concern: with record income inequality levels even for a region where inequality is pervasive, Chile has yet to achieve any significant reduction in the high concentrations of wealth that developed during the military government era (1973-1990).
- A. Economic performance and main accomplishments during the review period**
- 1.3 With Chile's recent admission to the OECD it is an opportune time to look at the country's current development status and ask what course it followed to get where it is today, what its medium-term outlook is, and what it will need to do to make its desired development leap.
  - 1.4 Chile's PPP-adjusted per capita gross domestic product (GDP) has ranked it second in the region over the past decade, slightly behind Mexico.<sup>3</sup> Looking at comparable countries, by that measure Chile is very close to Argentina and within 10% of Uruguay in 2009; analysts expect the differences to narrow further in the coming years.<sup>4</sup> According to IMF World Economic Outlook (WEO) forecasts, the gap between Chile's output and Argentine, Mexican, and Uruguayan GDP is expected to be 10% at most.<sup>5</sup> The numbers differ significantly only with Brazil and Paraguay. Though the differences increase slightly in a current-price comparison they clearly are not large.
  - 1.5 **Chile's most remarkable accomplishment has been its growth performance.** In the early 1980s Chile was one of South America's poorest countries;<sup>6</sup> by 2009 it was the wealthiest. In the three decades preceding the 1980s crisis its economic growth had been sluggish, trailing the Latin America and Caribbean (LAC) average, well behind Mexico and Brazil, and closer to Argentina's and Uruguay's rates.<sup>7</sup> But in the 1980s and 1990s, while the rest of the region weathered alternating episodes of moderate growth and downturns—some of them severe—Chile's per capita output grew steadily across the 1984-1998 period at an average annual rate of 5.5%.<sup>8</sup> By 1993 its per capita GDP in real terms was double the pre-debt crisis figure; by 2000 it was up threefold.<sup>9</sup>
  - 1.6 **Chile was the only country in the region to come up with a sustainable growth model following the debt crisis.** Empirical evidence supports the notion that the

distinctive feature of developing country growth is less its acceleration during growth episodes than its collapse during episodes of crisis.<sup>10</sup> As a norm, the downturns are more frequent, more protracted, and more severe than in the advanced economies. Chile was an exception: in 1984-2008 its per capita GDP shrank only once (1999) and its 15 straight years of growth in 1984-1998 set a region record.<sup>11</sup>

- 1.7 Chile's economic performance relative to the region's falls into three distinct chapters.<sup>12</sup> The first—the so-called “Chilean miracle”—lasted from 1983 to 1998, bookended by the Latin American debt crisis and the Asian crisis. In cumulative terms Chile's per capita GDP soared 111.8% in those years, far eclipsing LAC and global increases of 12.6% and 27.2% respectively. The second chapter, from 1998 to 2002, saw crisis episodes in Brazil and Argentina and a region unable to deliver net growth. Chile and Mexico were the exceptions, their modest annual average increases in per capita growth (1% to 1.5%) on a par with the 1.5% global rate. The keynotes of the third chapter, from 2003 to 2008, were a commodity price boom and low interest rates. The region posted record growth performance (4.8% average annual increases) for six straight years. Chile's economic growth rates were close to the LAC average, behind such countries as Argentina, Uruguay, Venezuela, and Peru.
- 1.8 Those same three periods saw differing patterns of growth in the various demand components. In 1984-1998 overall demand was driven by gross fixed capital formation (GFCF),<sup>13</sup> with increases more than double the output growth rate (15.6% annually on average, compared to 7.3%). Export growth (9.8%) outperformed output growth. Growth in final consumption expenditure trailed GDP growth and was particularly low on the government side (2.7%). Imports increased 12.3% annually on average. In the second chapter, from 1998 to 2002, GFCF growth averaged -0.8%. Export growth slowed but exports still were this period's fastest-growth component (5.3%). Private consumption growth was slightly behind output increase rates whereas government consumption increases (2.9%) topped output growth. Imports grew 1.7%, trailing output rises. The third chapter, 2003 to 2008, was close to a repeat of the first-chapter pattern but with more moderate rates. GFCF growth again was over double output growth (10.8% versus 4.7%) and exports also expanded faster than output. The new developments in this chapter were stronger growth in final consumption expenditure (both household and government) than in output and an average 13.8% increase in imports, triple the GDP growth rate and the highest, in absolute and relative terms, of the three chapters.
- 1.9 High domestic savings rates<sup>14</sup> and sizable cumulative government budget surpluses are two hallmarks of the Chilean model.<sup>15</sup> Since the country emerged from the 1980s crisis its public debt to GDP ratio has come down steadily, with a single mild setback in the years following the Asian crisis.<sup>16</sup> The government thus has needed virtually no external financing, and public debt issues are intended basically to serve as a benchmark for the private capital market or to hedge against currency

mismatches in public sector revenues and expenditures. When the CS was developed (2005-2006) the country's fiscal position was very solid and it improved over the course of the strategy's delivery, a result of a combination of high copper prices and the government's saving policy.<sup>17</sup> By virtue of cumulative budget surpluses Chile's public sector now is in a net creditor position.

## **B. Development challenges**

- 1.10 This section attempts to identify the main binding constraints for Chile to catch up to the advanced economies. The discussion context is how to sustain high growth rates in the medium term while narrowing equality gaps.
- 1.11 Chile's pursuit of a model based on leveraging its comparative advantages in natural resources development, with a tax burden that was low but sufficient to address certain market failures and steadily construct a social safety net, helped it achieve economic and social progress with stability. Over the space of two decades its GDP more than doubled and poverty was slashed to very low levels.
- 1.12 However, in the past decade this model has been showing signs of demise. The long-run growth rate has dropped sharply and though the post-transfer income distribution has been slowly improving there has been virtually no change in the pre-transfer distribution, which is one of the most unequal in the region. Education being the prime driver of income, the pre-transfer distribution attests also to a huge education quality gap and marks a long-term course for pro-equality policies. For the Chilean model this will mean adjustments to move the country into the knowledge and innovation economy, creating conditions for new technology absorption. The rise in services exports in 2009 (more than 10% of GDP) is an indication that Chile has already embarked on that process, but faster growth and better income distribution are country imperatives.
- 1.13 Chile's recent admission to the OECD marks a recognition of its past performance and a valuable tool henceforward. Its OECD membership will provide a frame of reference for a self-examination and give it access to high level public policy advice. It also will impose rules and facilitate compromise mechanisms, these being consistent with the current Chilean model that has made a strategy of reducing discretionality.
- 1.14 PPP-adjusted GDP series show that by that yardstick Chile still is closer to its Southern Cone neighbors than to the lowest-income OECD country (not counting Mexico). Its income distribution is the most unequal of any OECD member (including Mexico) and the most uneven among comparable countries in the region.<sup>18 19</sup> Nevertheless, Chile is better positioned to continue changing and to make the leap those other countries have yet to take. First, comparatively speaking, Chile's workforce participation rate is still low so it has greater scope to continue adding workers to the labor force: the gap with its Southern Cone neighbors widens sharply when we look at GDP per worker rather than GDP per capita. Second, Chile has a sophisticated public policy school; that asset, combined with a critical mass of experts producing high-caliber organized, applied knowledge, gives it tools

to manage the challenge of reimagining itself to take its place in the knowledge economy. Third, in the past two decades<sup>20</sup> the country has developed a social safety net consistent with its development model and underpinned by sound public finances. Chile has had, and today has, more decision latitude than its Southern Cone peers: since the reemergence of democracy it has been constructing a social safety net that works, is consistent with its development model and, unlike conditions elsewhere in the region, does not periodically threaten its sound fiscal position.

### **1. Productivity and growth**

- 1.15 Chile's **growth rates** in recent years and its medium-range growth forecasts are well below the 1985-1998 figures and are considered too slow to fix the country's social problems and thereby achieve, within the desired timeline, the developed-nation status to which it aspires. There is broad agreement as to what is slowing growth but not about what to do about it. The typical consensus argument is that *the challenge is not so much investment levels as how to boost worker productivity, particularly in low-skills workers. The major action focuses to accomplish that aim are education and labor market changes to promote job creation with social protection.*<sup>21</sup>
- 1.16 The investment to GDP ratio fell back after hitting record highs in 1995-1998, but the strong-growth chapter (1984-1998) average is on a par with the 1998-2002 rate (22%) and lower than in the commodity price boom years when it averaged 25%.<sup>22 23</sup> As a counterargument one could posit that in the immediate aftermath of the debt crisis Chile needed less investment to grow because it had huge idle capacity, or note that the South East Asia country ratios were even higher. In any event, if the region is the benchmark, over the past two decades Mexico and Chile have had the highest investment rates in LAC. In the last six years Uruguayan and Argentine investment rates have trailed Chile's but are rising much faster than Chile's, even several years after the countries emerged from their respective financial crisis episodes. In short, though Chile's investment rate could be higher, it does not appear to be its chief binding constraint.
- 1.17 **The issue is productivity.** A breakdown of total factor productivity (TFP) supports this diagnostic and affords an alternative explanation. Chile experienced steady TFP growth from 1985 through 1997, with accelerated rates of increase in the early 1990s, but by the end of the last decade TFP growth had flattened. This means that Chile's economic expansion over the past decade was driven solely by capital accumulation and population growth. The most recent forecasts are showing a falloff in productivity growth in 2010.<sup>24</sup>
- 1.18 An analysis of fast-growth chapters in the industrialized economies and South East Asia reveals that productivity<sup>25</sup> growth may drive a third or more of growth in GDP. According to the empirical evidence, to catch up to the developed economies Chile will need substantial, sustained productivity gains to help propel GDP growth.

- 1.19 There are a number of explanations for Chile's slow productivity growth, among them: (i) innovation-inhibiting market failures, (ii) supply-demand mismatches in the employment market (human capital), and (iii) a public goods deficit. These interpretations are not mutually exclusive and in some cases refer to the same phenomenon viewed from a different angle.<sup>26</sup> The public-goods-deficit interpretation is grounded in the argument that a light tax burden constrains increases in public goods, reflecting certain political economy equilibria that favor a low tax ratio. Underpinning this public goods deficit hypothesis is the fact that Chile's tax ratio of roughly 20% of GDP is low by regional and OECD standards alike, and no country with a larger GDP than Chile has an equivalent or lower tax ratio.<sup>27</sup> However, public spending levels may not be a constraint for public goods delivery when there are alternatives like concession ventures to meet public investment requirements. Chile made little use of that approach in recent years but mobilized substantial funding in the past.<sup>28</sup>
- 1.20 Against a backdrop of weak innovation and underdeveloped applied science and technology capacities Chile's outward-looking growth process was anchored in a commodity exporting model.<sup>29</sup> The economic liberalization reforms that gave market forces the preeminent role in a stable macroeconomic environment with clear ground rules pushed investment up over previous-phase levels and reallocated capital toward sectors with bigger comparative advantages, basically raw and processed commodities. Firms in the competitive sectors grew in size; those in less competitive sectors retrenched or shut their doors. This would explain both the jump in the investment rate and the growth in aggregate productivity but not in intrafirm productivity. To put it another way, this reallocation of capital produced a jump in aggregate productivity across the economy, but by that process's culmination in the late 1990s the productivity uptrend had broken.
- 1.21 By this interpretation the current ingredients of the Chilean model are insufficient. An innovation strategy means more than adding value to commodity supply chains: a country needs to build on its natural advantages to construct new competitive advantages in the knowledge economy. This calls for massive investment in high-caliber human capital and an innovation strategy in which the public sector constructs an institutional base for science and technology development and forges strategic partnerships with the private sector for the production and dissemination of applied knowledge.<sup>30</sup> This approach likewise requires a focused effort to develop lateral and backward linkages related more to production capabilities than to products. The clusters approach Chile has adopted is a step in that direction, combining all the aforesaid ingredients and facilitating the requisite identification of market failures for public goods delivery.<sup>31</sup>
- 1.22 Chile is developing a deeper understanding of innovation issues and is moving forward on policy guidelines to address them. The White Paper on Innovation proposes a governance role for the State in the innovation system and a new State model to "facilitate development of areas that have potential and need funding but are not in themselves attractive to the private sector."

## **2. Narrowing opportunity gaps**

- 1.23 Chile has one of Latin America's most uneven income distributions. The Gini coefficient for Greater Santiago (the only part of the country for which there are pre-1987 distribution data)<sup>32</sup> depicts a stable distribution of around 0.51 in 1957-1967. The Gini then rises and drops, averaging out roughly at the following-decade level. From 1975 forward, income became much more heavily concentrated: the Gini index rose steadily from 0.48 to 0.65, peaking in 1988. Income concentration dropped quickly during the first years after democracy was reinstated, to then fluctuate around 0.53 on the Gini yardstick.
- 1.24 According to the most recent data, Chile's countrywide income distribution, measured on the Gini scale, improved slightly over the three-year span 2003-2006, edging down from 0.55 to 0.52. This change occurred following a period (1987-2003) in which income concentration had remained relatively unchanged, the result of opposing trend changes in various dimensions of wealth distribution that tend to offset each other. The regional dimension (intra and interregional changes) in wealth concentration is noteworthy. At the intraregional level, income concentration dropped in virtually every region between 2000 and 2003; the simple average Gini coefficient in the regions fell five points, but the concentration increase in Metropolitan Santiago (from 0.56 to 0.57) offset much of that reduction.<sup>33</sup>
- 1.25 One explanation advanced for Chile's high countrywide income inequality is the concentration of wealth in its highest-income quintile, and especially in the wealthiest ten percent of the population.<sup>34</sup> Contreras, for his part, found that education and returns to education account largely for inequality and that so long as taxes do not affect the distribution, social expenditure has a significant impact on inequality reduction.
- 1.26 What emerges from that research is that education quality and investing in human capital are the best avenues to sustainable long-run income distribution improvements. In the short run, cash transfers under social policies were a way to ease the symptoms of the problem. Chile has made great strides in recent years on constructing a social safety net to tackle those symptoms while acting on the long-run drivers of those trends, to create job market opportunities and avoid welfarist policies that can discourage personal effort.

## **3. Governance disparities and challenges for their assessment**

- 1.27 There is a consensus that Chile needs to *reduce governance disparities across sectors and tiers of government, improving monitoring and securing more independent public program assessments*. The Chilean State works well. Though there may be room for improvement it is not a bottleneck to long-term growth. A careful manager of macrofiscal fundamentals, it has a good institutional head atop a still-traditional body. The problems typically cited for poor State performance in the region, such as political instability, corruption, an inefficient justice system, weak property rights, and volatile public finances, are not germane in the Chilean context.

- The country's public resource allocation logic pursues efficiency, opportunity enhancement, and a more competitive marketplace. Administrations have been working to couple the nation's established social protection system with employment opportunities to give Chileans income security and enhance their employability.
- 1.28 There are sound governance standards in place in the central government but large disparities in public management capabilities in some sectors, particularly in the subnational government sphere. The result has been heavily centralized governance relative to any reference set of countries. Another cited shortcoming is the country's insufficient recourse to the private sector, to take better advantage of its entrepreneurial skills particularly to create conditions to make innovation and technology development attractive and profitable.
- 1.29 A final challenge for Chile in the State dimension is how to generate long-term agreements on public policies in a country that elects administrations for short terms and bars consecutive terms in office. The last administration's approach was relatively efficient, with the operation of Presidential Advisory Boards or with the Council on Innovation for Competitiveness in which creative solutions with broad backing were worked out, albeit without continuity. This alternation of administrations makes institutional arrangements for decision continuity all the more crucial. Creation of a public policy quality agency that has been, and remains, a government agenda priority marks a step in that direction.

## II. THE PROGRAM'S CONTRIBUTION

### A. Program context

- 2.1 Evaluating the Bank's strategy with Chile (country strategy—CS) is singularly important because Chile is a recipient of Bank loans even though it does not need to borrow. To the contrary, by virtue of its fiscal reserve buildup and systematic lowering of its debt stock it now is a net creditor to the rest of the world. The Bank therefore is not an important source of finance, a scenario that changed little over the period reviewed here.
- 2.2 Consequently, the Bank's value-added lies in other domains, which owing to their weight in results performance were a central focus of our analysis. That value-added contribution is summed up in the political economy dimensions of the Bank's strategic engagement with Chile<sup>35</sup> that came out of this evaluation of the country program (the Program).
- 2.3 **Table 1** presents the major components of the Bank's value-added contribution to the country (shaded sections) and compares them to the previous CS. The following items stand out: (i) the Bank's comparative advantage to help in public program delivery, acting as an honest broker in complex issues; (ii) its efficient operating and performance standards to discipline activities and coordinate the work of coexecuting agencies in government programs, making them evaluable in a country

that cares about results; and (iii) low transaction costs for project design, administration, and implementation. Public policy legitimation and transfer figure less prominently in this CS. Specific project design expertise and public policy reversibility are still on the list but with a more modest value-added contribution. Partnering with the Bank reduces government program delivery risks, sharing the country political and institutional risks.<sup>36</sup>

- 2.4 The strategic program with the Bank is planned and approved as part of the budget program development exercise in the Finance Ministry's Budget Directorate (DIPRES), which is the Bank's official counterpart. DIPRES's mandate is to ensure that public resources are efficiently allocated within the fiscal policy framework, using financial management, programming, and management control systems and tools. To perform its mandate DIPRES must comply with each year's Budget Law; to that end it sets and delivers a set of strategic objectives, including public sector revenue and expenditure administration generally, requiring project evaluations and verifying compliance, and scrutinizing performance enhancement programs and processes, as applicable.<sup>37</sup>
- 2.5 The country's programmatic logic is cross-cutting and qualitative, in contrast to the CS's more sector- and issue-focused vision. For the Bank the action focuses are the sector and the project more than the program, which makes for a thin cross-cutting agenda. The country is more interested in cooperation support from the Bank on **how** to act to enhance government program delivery than in the Bank's ability to propose solutions to issues or sectors.

**B. The 2006-2010 country strategy**

- 2.6 The country strategy's core premise was a recognition that inequality is the biggest roadblock on Chile's path to developed-nation status. All the advanced economies, bar none, have greater equality than Chile. The CS acknowledged that inequality does not start or end with income: there are inequalities in opportunities and in the fruits of development as well. Rather than one single "inequality" there are a number of intertwined inequities. The administration's midterm goal was to reduce inequalities of all types, cementing the foundations of a social protection state that eschews welfarism and builds sustainable public policy institutions.
- 2.7 To deliver that core goal it was recognized that, given the development model's constraints for propelling growth and improving distribution, the country would need more than its highly regarded macroeconomic policy, which was fundamental for stability, growth, and sustained, prudent budget policy.<sup>38</sup> Public spending also would have to be more efficient to reduce inequality and increase employment while putting institutional underpinnings in place<sup>39</sup> to enhance science, technology, and innovation policy coordination. The proposed avenue was to create economic incentives that would make for more equitable human capital development (in the technology, economic security, and education dimensions), building up private sector innovation capacities with a view to developing industry clusters around the country's comparative advantages.

- 2.8 Enhancing economic productivity and competitiveness thus moved to the fore, the goal being to nurture private entrepreneurship to create, adapt, and adopt technologies to cement the productive capacity potential of the traditional natural resources based model. The recognition of regional disparities also made a decentralization agenda a priority, to enhance opportunities and raise living standards. Public policy decision-making and authority are highly centralized in Chile, as is public revenue allocation. Over the review period the government's agenda emphasized a regional focus in social protection and inclusion issues and in economic development, incentivizing entrepreneurship as a way to narrow regional disparities in the country's transformation.
- 2.9 The CS proposed that the Bank assist Chile in narrowing equality gaps with the advanced economies in four areas that constituted the CS development challenges, and laid out 17 goals and 35 means of achieving them.<sup>40</sup>
- 2.10 The four key challenges set out in the CS were to: (i) **reduce opportunity gaps for the most vulnerable population groups**, with three goals: narrow opportunity gaps and improve education quality, lower poverty rates and bolster the social safety net, and foster inclusion of vulnerable groups and target policies and programs to those populations; (ii) **reduce competitiveness and income gaps with the advanced economies**, with five aims: nurture innovation and technology development as productivity drivers; support a new round of public-utility regulatory reforms; strengthen and develop the capital market; boost production capacity of MSMEs; and strengthen the external sector so it can continue to drive economic growth; (iii) **make government more efficient and bring it closer to the citizenry**, with three goals: foster regional development and create institutional conditions for its sustainability; foster accountable, participatory national governance, and enhance governance quality; and (iv) **implement a new Bank business model with Chile**, with six aims: lower the transaction costs of Bank operations in Chile using country fiduciary systems; offer local currency finance, raising funds on the Chilean financial market; build up Country Office technical capabilities; improve coordination with the Bank's private sector arm to promote new operations; use the Bank's new lending products (PDL, CCLIP); and make more strategic use of its nonfinancial products to identify and develop new country engagement opportunities.
- 2.11 The Bank understood the issues of concern to Chile—its wish to cement a sustainable social protection state, pursue a new development model focused on technology change and innovation, and reduce governance disparities across sectors and tiers of government. However, the CS's large array of proposed goals and means of achieving them diluted its synergy and long-range vision. There was no clear forward planning in the Program to be able to explain how the results of the programmed interventions would constitute real progress toward country development challenges.<sup>41</sup> Moreover, by framing Program results as country development challenge results the true dimension of the Program's contribution was lost.

- 2.12 Chile's charting of a long-run, knowledge economy focused transformation model is creating a paradigm shift in the technology and socioeconomic domains as well as in the institutional-organizational dimension. Timing mismatches between the two spheres are inevitable during such transitions. Institutional and organizational changes typically take longer: it is easier to change processes and products<sup>42</sup> than cultures, organizational configurations, or learning processes.
- 2.13 The priority focuses in Chile's engagement with the Bank were institutional and organizational capacity enhancements required for the management of government programs affected by that paradigm shift, where the timing mismatch made it difficult to achieve results. Responsibilities in those programs typically were shared among various parties that converged to deliver their objectives, each of them managing different vehicles and operating in or with different geographic locations, sectors, or segments of society. In virtually every case in which the country sought support from the Bank it was more for its ability to help deliver specific government budget program priorities than because of its sectoral expertise.
- 2.14 The country sought Bank assistance to make complex government programs deliverable<sup>43</sup> where unreliable program management was creating stresses for budget performance.<sup>44</sup> The CS actions correlated strongly to that concern, though it was lightly weighted in the CS results framework. This weakened the match between the CS's heavy sector focus and the value-added contribution the Bank was known to provide.

### **C. Programming relevance, efficiency, and coherence**

- 2.15 A Bank country program is *relevant* if its strategic objectives and purposes closely address the country's development challenges and the proposed vehicles to achieve those aims were approved with those contents. Relevance is a necessary but not sufficient condition for gauging the strategy's performance. The sufficient condition is that the projects delivered under the program are aligned to the goals charted therein.<sup>45</sup>
- 2.16 By our analysis the Program was aligned to the country's development strategy (**Table 2**). Taking the anticipation rate<sup>46</sup> as a measure, we find that 97% of projects (92% by amount) proposed in the 2006-2010 CS were approved. Accordingly, the Bank has been a good partner in addressing the government's priorities and a strategic partner in helping deliver on its development challenges.
- 2.17 A further finding was that there had been continuity in operations approved in the previous strategy cycle and still executing in the period reviewed here. Though most of those interventions remained relevant to priorities of the period, there was no evidence in the CS paper design that such a consistency analysis had been done. The Bank assumed, without closer analysis, that operations carried over into the subsequent programming cycle would continue with their originally approved contents.<sup>47</sup>

- 2.18 As for the Program's relevance in terms of funding delivery, the US\$519 million in new approvals approached the high scenario set in Annex I to the CS paper (US\$614.7 million), exceeding the US\$480 million target scenario.
- 2.19 An analysis of the Program's *efficiency* complements the relevance analysis, using a measure to show whether the Bank approved projects not envisaged in the programming exercise. According to this "improvisation index"<sup>48</sup> the Bank's public-sector lending was efficient, virtually all those loan approvals having been programmed.<sup>49</sup> This was not the case for the private-sector,<sup>50</sup> TC, and MIF operations, where anticipation rates were lower and improvisation rates higher, by amount and number of projects alike.
- 2.20 The final analysis focus was the *coherence* of the program in relation to the financing instruments that were mobilized. The findings indicate that for virtually all the funding approved (82% for public-sector approvals) the Bank used less transactional, programmatic, performance-driven products that recognized country systems as sufficient (**Table 3**).
- 2.21 The predominance of programmatic, performance-driven products in project designs approved in 2006-2010 speaks to the objective of devising a more development effectiveness focused business model for the Bank's engagement with Chile (PDLs account for over 70% of its public-sector lending by amount). The Project Preparation and Execution Facility (PROPEF) continued to figure prominently on the Bank's flexible lending product menu, a mark of the importance the country affords to timely borrowing in its budget programming. That product's potential benefits were sharply diminished by the Transantiago transit project's fallout on the Bank's pipeline. As a result, several operations for which a PROPEF was under way in 2008 were not approved until December 2009 and January 2010.

#### **D. Evaluability of the country strategy**

- 2.22 An examination of the strategy's evaluability indicates that an effort was made to establish indicators, but baselines were provided for just a third of these and targets for fewer than half of them. In the absence of sufficient metrics to demonstrate progress from the situation at entry or against set performance targets, gains attributable to the Bank's involvement cannot be measured. Moreover, no milestones at all had been provided, not having apprehended that outputs and outcomes are not delivered simultaneously in time.
- 2.23 Because of this highly unbalanced CS results framework logic the CS evaluability index is low. Since the CS does not provide enough information to be able to demonstrate gains, the possibilities of benefiting from the evaluation are slim. Even in the case of the third strategic challenge (enhancing government efficiency, etc.) where there were indicators in about 93% of cases, we found no operational definitions sufficient to measure their performance nor any systematic discussion about availability of timely information about them to indicate the quality and aptness of the proposed data sources.

### III. THE PROGRAM'S DELIVERY PERFORMANCE

#### A. Delivery of the program

- 3.1 In the period 2006 to February 2010 the Bank approved 98 Chile operations totaling US\$669.1 million,<sup>51</sup> 12 of them public-sector loans that accounted for 77% of total funding. MIF projects made up 4% of the total, technical-cooperation (TC) grants 2%, and private-sector lending 15%. The approvals total far surpassed the programmed high scenario of US\$585 million, mostly because of the increase in public sector targeted lending.
- 3.2 The average loan approval in 2006-2010 was US\$27.3 million. Total approvals by amount over that interval were close to the 2000-2005 country strategy span (US\$651.3 million) when the average loan had been slightly smaller (US\$24.4 million). Total 2006-2010 approvals by number were up considerably from the 2000-2005 cycle's 76 operations, largely due to the sharp increase in TC grants in the review period.<sup>52</sup> In all, 31 loans totaling US\$657 million (including 7 PROPEFs) were reviewed to produce this CPE. In terms of product totals, about 100 operations worth US\$686.8 million were examined, including TC grants, private-sector loans, and MIF operations.<sup>53</sup>
- 3.3 Disbursements did not follow the approvals trend. In the 2006-February 2010 span the Bank disbursed US\$188.6 million; the 2000-2005 total had been more than triple that figure (US\$625.3 million).<sup>54</sup> This disbursement performance put the Bank's Chile loan balance<sup>55</sup> at US\$412.7 million at 28 February 2010, equivalent to the public-sector lending target in the 2006-2010 CS (US\$480 million).
- 3.4 This is indicative of disbursement issues, and these large undisbursed balances will influence the country program going forward insofar as the government maintains its IDB borrowing levels.<sup>56</sup>

#### B. Implementation effectiveness

- 3.5 Among the strategic challenges charted in the 2006-2010 Chile CS was one that was new to this type of strategy blueprint: implement a **new business model** for the Bank's country engagement. The fundamental purposes behind this challenge were to make it more attractive to work with Bank products and procedures, manage the portfolio for results, tighten coordination between the Bank's lending windows, and build up Country Office (COF/CCH) staff capabilities and resources in line with that more professional, nimble approach. Under this model, transaction costs of Chile's work with the Bank were to be lowered by means of enhanced alignment to country fiduciary and nonfiduciary systems and the use of flexible, results-driven lending products. More strategic use would be made of the Bank's nonfinancial products and other knowledge products in a country that looks to the Bank for assistance with innovation and best practices. The main achievements in this regard are reviewed in the following sections.

## 1. Implementation timeliness and efficiency

- 3.6 The Bank's diversification of its lending product menu, introducing **flexible lending products (PROPEFs, sector facilities, innovation loans) and less transactional lending vehicles (CCLIPs and PDLs)**, greatly simplified and streamlined processes and procedures and thus shortened project preparation and administration times.
- 3.7 The greater **use of country systems** in project implementation, preserving the fiduciary risks, was a further step in that direction. In a four-operation pilot exercise launched in 2006 (document CC-6066) contracts were revised to streamline and country-tailor supervision. Country fiduciary systems were used for procurement, disbursement review, and financial statement auditing and controls. Projects are entered in the executing agency's records using budgetary accounting that requires a converter to change national chart of accounts line items to the Bank expenditure's categories, since it does not have a project accounting system.<sup>57</sup> In the new exercise there are no prior or post reviews and no supervision missions; the Bank's work focus is the technical dimension, i.e., disbursement eligibility and drafting of terms of reference. On the nonfiduciary side, greater use was made of country environmental assessment systems. Country systems were not used to measure the Program's performance effectiveness.
- 3.8 A two-year-long evaluation of the above-mentioned pilot initiative pronounced the country systems to be reliable, transparent, and robust and concluded that the Bank could use them. There was room for adjustments and improvements in some areas but these were perfectible.<sup>58</sup> From that moment forward all portfolio projects began executing using the pilot modalities. In some instances borrowers have asked to go back to Bank rules and procedures, particularly to better manage its lending products<sup>59</sup> or because the Comptroller General Office's review thresholds are more stringent than the Bank's. In the government's view it is important that both systems be kept. Chile's fiduciary and nonfiduciary systems are now being used extensively: virtually all current Bank projects are using these country systems.<sup>60</sup>
- 3.9 The evaluation findings regarding **preparation and implementation times** of projects approved since 2001 indicate that Chile is one of the countries that is continuing to improve in this area (**Table 5**). On average its project approval and rollout times are shorter. This shows up mainly in the considerable Profile 2 preparation time differences, where Chile has a comparative advantage, and also in disbursement times: average Chile loan disbursement spans are 20 months shorter than the Bank average. The difference shrinks considerably when we look at PDLs—the lending product that accounted for over 70% of Chile loan approvals by amount over the review period. That product's transactional and programmatic advantages do not hold up when it comes to disbursement eligibility timelines.
- 3.10 To supplement the findings of our review of the stock of projects completed during the review period we analyzed **annual disbursement flows** of projects that began executing in 2006-2010 or disbursed substantially over that span. The measure used

for the more recently rolled out projects was whether or not loans were disbursing as scheduled at entry. We compared the indicator thereby calculated against the historical analysis average to infer whether the most recent CS cycle saw continued improvements.<sup>61</sup>

- 3.11 Disbursement performance (actual compared to planned) comes to just 44%. The low disbursement rates cannot be ascribed to fiscal or counterpart constraints, nor to lower loan approvals. There are several explanations.<sup>62</sup> First, the Transantiago project fallout on the Bank's pipeline held up new loan approvals, some of which already had PROPEFs operating and had project line items in the public expenditure budget. Second, the new performance-based lending products, primarily performance-driven loans (PDLs),<sup>63</sup> may have lowered transaction costs but did not accurately anticipate the difficulties for delivering outputs that were the disbursement targets. Third, some of the projects implemented were overscaled and lower-priority vis-à-vis the outcomes sought, and several of them had to be reformulated to be able to disburse the loan proceeds.<sup>64</sup>
- 3.12 Given the foregoing, it cannot be emphatically asserted that performance-driven lending products are less implementation performance impacting. The data suggest that even though these products are less transactional they may have a heavier performance impact—considerations that should also be anticipated when deciding to use them.
- 3.13 As an adjunct to the review of how **fiduciary and safeguards issues affected delivery performance** we examined implementation issues identified and regularly reported by management in its semiannual Project Performance Monitoring Reports (PPMRs) (**Figures 1 and 2**). The analysis found the Chile project issues to be insignificant and less performance-impacting than the Bank average, except for delays in project contract condition compliance (conditions precedent to disbursement), where Chile appreciably exceeds the Bank norm.<sup>65</sup>
- 3.14 This positive implementation performance is the result of low fiduciary risks in project execution that left the Bank free to elect to use country systems and less transactional lending products. However, the reported holdups in fulfilling pre-disbursement conditions are another matter, which speaks to other types of institutional shortcomings that are affecting disbursements. Since approved Chile projects are mature, few conditions precedent are set for them; the explanation of the above-noted trend thus must lie elsewhere. According to the evaluation findings the country has delivery intent but often does not need the Bank's money to move forward; this means that there is no pressure to report contract condition compliance, and a large backlog builds up. Moreover, usually there was no advance disbursement requirement in PDLs under Conditional Credit Lines for Investment Projects (CCLIPs) and meeting disbursement targets took longer than planned.
- 3.15 Accordingly, there is nothing to indicate that the use of new lending products is significantly less performance impacting. The use of country systems also for loan disbursing was important to lower the transaction costs of project approvals and

administration but had no major effect on disbursement performance. The work focus on optimizing the product mix and streamlining lending products and rules to reduce transaction costs was not enough to resolve issues that were slowing disbursement rates.

- 3.16 This uneven disbursement performance **appreciably reduced the value-added that Bank project delivery could contribute to the country**, measured by the interventions' net fund flows.<sup>66</sup> To approximate that added value we constructed a set of indicators (**Figures 3 and 4**). First, we plotted annual net cash inflows (disbursements less debt service payments to the Bank) across the 2000-2009 period against annual disbursements and approvals, factoring out the Transantiago project. On average the net flow was negative. Disbursements averaged US\$885.6 million over that span aligned with average debt service (principal plus interest) of US\$-294.3 million. The difference is explained by the falloff, from 2006 forward, in annual disbursements that did not echo the higher-approvals pattern, though disbursements did pick up somewhat in the last two years.
- 3.17 Second, we plotted loan disbursements against phases in the country's business cycle, the contribution measure here being the ratio of disbursements to changes in per capita GDP. The contribution is modest and trends down across the period, particularly after 2004 (it previously had been three times higher). After the country's substantial extraordinary payments to reduce its IDB debt (US\$409 million between 2000 and 2005) the net disbursement flow again became positive.
- 3.18 In brief, the Bank is a small player in Chilean public sector finance, and its contribution during the period reviewed here was weaker than in the previous CS cycle, largely because the disbursement potential of the increased approvals could not be delivered. The Bank's value-added as a lending agency was diminished; the fact that these developments coincided with the political transition heightened its risk exposure. The recognition of its value-added contribution to strategic public policy delivery would be the Bank's premier merit to counter those relevance risks.

## **2. Implementation effectiveness**

- 3.19 A matrix of progress indicators was devised for this assessment of the Program's implementation effectiveness (**Table 6**), adapted from the analysis dimensions and guidelines of the OECD/DAC Paris Declaration on Aid Effectiveness.<sup>67</sup>
- 3.20 These Program delivery performance metrics are grouped into four dimensions: (i) country ownership of the CS with the Bank, to gauge the extent to which its project results framework forms part of public programs figuring in annual and medium-term budget frameworks; (ii) CS alignment to country priorities, institutions, and fiduciary and nonfiduciary delivery systems and procedures, contributing to the relevance of the Bank's involvement and lowering transaction costs; (iii) harmonization of the CS activities and products with country processes and products, which likewise tightens alignment to country systems; and (iv) managing for results, an indicator of the extent to which the information that

has been provided is sufficient and reliable enough to be able to measure progress on project and Program results,<sup>68</sup> and if it is used also for performance-based resource allocation.

- 3.21 The Chile Country Strategy Evaluation (CPE)<sup>69</sup> that reviewed the 1995-2005 period stated that the program “does very well in terms of the *ownership* criterion [but] generally faces enormous challenges with respect to the other criteria of *alignment*, *harmonization* and *managing for results*.” It concluded that “*progress in these dimensions would reduce transaction costs and align the Bank and the country’s results-based policy system.*”
- 3.22 The present CPE documented continuing improvements in the delivery of products approved or substantially executed under the Program in the *ownership* dimension and considerable improvements on the *harmonization* side. The *alignment* results were superior to those reported in the previous CPE, though there is margin for improvement. There was very little progress on *managing for results*, with no discernable change from the previous-period findings.
- 3.23 Beyond the indicators presented in the selected methodology,<sup>70</sup> these findings come out of OVE’s analysis and not a similar assessment that is performed regularly to track delivery of the CS. The absence of a set of indicators with which to monitor and demonstrate how effectively Bank projects and programs are delivering on the challenges pursued by the Program lessens the credibility of the strategy exercise and of the results of the operations themselves.
- 3.24 The importance the country accorded to organizing Bank interventions and resources to operationalize budgeted public programs comes out clearly. The Bank’s operations were aligned to government priorities, making for broadbased **ownership** of the CS.
- 3.25 Among the Program results the country accorded great importance to the furtherance of the decentralization agenda. For the most part the sector-level activities were sector-managed; the Bank became engaged in sectors where there was no clear responsible country authority.<sup>71</sup>
- 3.26 In addition to the Program’s close and balanced **alignment** to the country’s strategy priorities, country fiduciary and nonfiduciary systems and procedures were used in many projects. A handful of operations had external executing units. The selected lending and nonlending products served the objectives of the new business model. Diagnostic assessments had rated the country systems adequate and their pilot use showed them to be reliable; once it was ascertained that they presented no major implementation risks or obstacles they were used extensively. Disbursement predictability (relative to at-entry timelines) was low, an issue discussed earlier in this report.
- 3.27 With respect to performance on the **harmonization** dimension, a review of the data shows that good arrangements were in place to deliver the projects within the country’s programmatic and accountability approach, assuring budget support for

the operations and reducing implementation risks. The heightened strategic importance of the *analytical and knowledge work* fostered by the engagement with the Bank is particularly noteworthy.<sup>72</sup> According to the indicators, every Bank end-output was supported by more than two other instrumental inputs. As for the knowledge density ratio, for every ten products there were eight wholly grant funded knowledge products. However, the internal structure of these products was not balanced: 68% of the total are studies for diagnostics and to decide how to act in the Program (PRGs and NFPs), with very little analytical work on how to improve project delivery and studies to evaluate and disseminate learnings (“why to act”).

- 3.28 Progress on **managing the portfolio for results** has been very slow. Not enough information is being provided to be able to demonstrate portfolio implementation progress toward the performance goals.<sup>73</sup> The country has its own budget program performance assessment system with sound tracking and reporting capabilities. Normally that assessment does not depict CS performance, and the country evaluates IDB project performance only in exceptional cases.

### **3. The influence of context: managing risks**

- 3.29 The project implementation environment is by nature constantly shifting, so exogenous or unforeseen changes and uncertainties that can hamper implementation performance are only to be expected. Hence the importance of anticipating such contingencies and devising good mitigation measures, making risk management increasingly an important facet of portfolio execution.
- 3.30 The Bank had identified two CS implementation risks. The first had to do with the country’s sound macrofiscal position and its borrowing policy, which could alter external lending flows. Local-currency securities issues by the Bank were the avenue proposed to address that eventuality. The second risk was that the slow pace of transaction cost reduction could slow Program implementation; here the mitigating measure was the new business model that became one of the CS strategic challenges. The first contingency is not a risk but a reality that cannot be mitigated by a new Bank lending product, not related to portfolio volume. The second, while a valid risk, is not entirely exogenous to the Bank, so the decision to add a CS strategy component to mitigate against it was a sound one.
- 3.31 On the project side the evaluation found risks to have been inadequately managed (**Table 7**). Among the loans reviewed, mitigation actions had been envisaged for just 52% of the identified-at-approval risks. None of the operations distinguished between external risks, which require mitigating measures, and internal risks that should be addressed in project components. As for effective in-process risk management, the Bank’s internal monitoring and evaluation documents provide status reports or mitigation information for only 43% of risks occurred to date. Lastly, 20% of the risks reported as having occurred had never been identified, either at entry or in monitoring reports.

#### **4. Aligning the Country Office to the quality of work and resource requirements of the new business model**

- 3.32 The CS underscored the importance of enhancing the quality of Country Office (COF/CCH) staff work and involvement, along with greater participation of Headquarters specialists and specialized consultants, to act on opportunities and make the country dialogue and the Bank's country work more effective. This entailed allocating financial and human resources to upgrade the professional profile to which the country needs recourse to pursue the strategic activities envisaged in its engagement with the Bank. The metrics constructed for this evaluation to gauge progress on that front show a different picture (**Figure 5**).
- 3.33 The time use of COF/CCH technical officers, measured by work hours reported in the TRS and organized by programmatic budget category, was similar each year across the 2006-2009 period. The differences come out in an analysis of the internal structure of those programmatic categories.<sup>74</sup>
- 3.34 The time spent on support tasks increased and continues to be the Bank's main in-country work (51.8% of the total in 2006-2010, with steady increases over that span), making for a more fiduciary than substantive image.<sup>75</sup> The hours spent on administrative support quadrupled between 2006 and 2009<sup>76</sup> whereas time spent on corporate management tasks fell fivefold, reflecting a change in proactivity and increased services to "in-house clients," reflective of a matrix organization that is wider in terms of management units and deeper in terms of operational and monitoring levels. All of this requires more coordination and more authorizations, with the risk of overlaps and duplications.
- 3.35 Looking at the more substantive COF/CCH activities, staff have only modest involvement in knowledge products, spend negligible time on development effectiveness assessment, and work seasonally on strategic programming. Over 40% of their time is spent on operations design and implementation, the fourfold increase for project design support being particularly noteworthy. This may be reflective of a more sector-focused Bank in which the specialists began to have responsibilities in areas that go beyond on-the-ground in-country work.

### **IV. RESULTS DELIVERY**

#### **A. Overview**

- 4.1 Though this country strategy evaluation focused on the period 2006-2010 it took a long-range view of the Bank's Chile engagement. In addition to the Bank's public and private sector operations approvals (excluding IIC operations<sup>77</sup>) over that span the evaluation team looked at operations that had been under way at the start of 2006 and executed substantially over the review period. All approved projects were examined, even if only a small part of their funding had been disbursed, since this was considered important to substantiate the Program's relevance. We also analyzed the contribution of the Bank's nonfinancial products (NFPs) to results as

well as projects in the pipeline at the time of the evaluation that anticipate the future Program.<sup>78</sup> A specific ex ante analysis was done of projects approved recently or still low-disbursing to project the anticipated Program delivery benefits. The largest cancellation of funding in the review period was the US\$400 million Transantiago project loan.

- 4.2 The evaluation methodology did not measure impacts based on counterfactuals but, rather, used reliable, faster procedures constructed around interviews with key informants, field visits, semiquantitative structured interviews, and a review of background documentation and country and international databases.
- 4.3 The first section below looks at the evaluability of operations approved during the review period. The following sections summarize the main project results organized by Program strategic challenge. The annex to chapter IV contains a detailed analysis of the projects.

## **B. Analysis of project evaluability**

- 4.4 In this section we examine the evaluability of public-sector operations approved in the 2006-2010 period, using a summary measure depicting the extent to which the project documents at entry make it possible to benefit from the evaluation (ex ante evaluability). That result is compared to a similar analysis based on information provided in the Project Completion Reports (PCRs) or, if there is no PCR, in the latest Project Performance Monitoring Report (PPMR) if the project is still executing (ex post evaluability) to determine whether the at-entry evaluability improved over the course of the project and whether the Bank continued making progress toward results.
- 4.5 The project evaluability index<sup>79</sup> was 75% in the review period (**Figure 6**). A breakdown of the index reveals that 91% of projects had indicators at entry but only 74% had a baseline metric value to be able to measure their progress. Indicator targets had been set for the same proportion of projects (91%), this being a logical consequence of the type of products that made up the bulk of approvals in the period (PDLs, CCLIPs). The absence of milestones in so many of the projects (only 46% had set milestones) is indicative of insufficient planning of activities to deliver the outputs and outcomes. According to the analysis findings the Bank measures progress on its projects largely by reference to targets achieved, not against indicator values at entry.
- 4.6 The overall ex post evaluability index shows that the ability to benefit from the evaluation did not improve as projects executed: on average the ex post index was 60%, below the 75% ex ante index, and it was lower for every dimension into which the index was broken down, owing to in-process elimination of at-entry indicators<sup>80</sup> (**Table 8**). When the index is measured for the results matrix factoring out eliminated indicators (**Table 9**), progress monitoring performance<sup>81</sup> improves to 70% (compared to 52% when measured against the indicators at entry). This reflects once again the weight of the results-based projects in the total approved portfolio.

- 4.7 The most important analysis finding is that projects' results performance is being demonstrated basically by outputs delivered rather than their development impact. As **Figure 7**<sup>82</sup> illustrates, what mattered as far as project performance was concerned was output delivery monitoring, i.e., efficiency in attaining development goals. The indicator shows that whereas close to 80% of activity-to-output change indicators are tracked, only 32% of development outcomes are monitored (50% in at-entry designs). This suggests that as its effectiveness criterion the Bank assumes that good outputs are associated to good outcomes and that the Bank's core work is to see those outputs delivered.

### **C. Project contributions to the Program results**

- 4.8 This section presents the evaluation findings on Program performance inferred from projects' contributions to the value-added the country sought in its engagement with the Bank.<sup>83</sup> A more detailed analysis of project contributions is provided in the annex to chapter IV. The performance effectiveness of the business model was discussed in chapter III.

#### **1. Reducing opportunity gaps**

- 4.9 The education gap is the chief driver of disparities in opportunities in Chile.<sup>84</sup> The country made huge inroads against poverty by significantly boosting social spending, mostly through cash transfer programs, but the Gini income distribution coefficient is still high and has improved little over time. This prompted decisions to eschew welfarist policies that can discourage personal effort and embrace an **approach whereby development actions to address each social problem would be associated to sustainable management models with a distinct institution to head them up in each case.**
- 4.10 The logic of Bank operations on the equality-of-opportunity front was to assist in the delivery and monitoring of public policy to address this challenge. Support was provided to construct an institutional and regulatory base to narrow social inequities and achieve universal coverage that would be sustainable long-term. The fact that this value-added was delivered through small loans served to confirm that the Bank's involvement was not associated to the size of its funding support. The Bank provided numerous grant-based NFPs and studies to help with design work, not all of which crystallized into loans.
- 4.11 Overall, the projects meshed with the country's efforts to make sustainable inroads against inequality of opportunities in targeted populations and vulnerable groups (indigenous peoples, older adults, women, persons with disabilities, and children—increasing preschool enrollments and quality, and social security). There were other interventions, addressing other of the CS challenges, that pursued this same goal of remedying social inequities in selected population groups.<sup>85 86 87</sup>
- 4.12 The following sections describe the main results of the projects that pursued each goal under this development challenge.

**a. Narrowing opportunity gaps and enhancing education quality**

- 4.13 The government put education high up on its policy agenda, with particular emphasis on preschool education. This became one of the pillars of its administration. The goal was to achieve “equality from birth,” guaranteeing that every child in the country would receive good-quality education regardless of his or her socioeconomic circumstances.<sup>88 89</sup>
- 4.14 The studies,<sup>90</sup> TCs, and seminars the Bank had funded prior to the 2006 changeover in administration helped identify this action niche, which had been an acknowledged concern for years. The studies were forwarded to the Presidential Advisory Council to inform its Chilean child and family policy blueprint.
- 4.15 The **Program to Strengthen Early Childhood Education (CH-L1022)** approved in 2010 is still awaiting ratification by the new administration. It was funded by a small loan (with an associated PROPEF), using a funding vehicle (programmatic loan) that was unusual for Chile, to maximize its flexibility.<sup>91</sup> The Bank’s purpose as charted in the CS was to help improve the quality of preschool education across the board and come up with cost-effective delivery alternatives. The only concrete result was the child and family policy improvement for preschool education. The operation’s value-added lay in its catalytic role as technical and policy dialogue facilitator, coordinating the various actors’ work and mediating to standardize organizational criteria and quality standards to ensure that the gains would endure. Unless and until the loan is ratified the program’s results will be adversely affected. Any setback in this strategic item on the country’s long-range agenda would be a setback also for the Bank’s long-run work in this sector.

**b. Reducing poverty and bolstering the social safety net**

- 4.16 The Bank contribution sought to pursue this goal was support to the **Presidential Advisory Councils**<sup>92</sup> to strengthen development governance. The Bank contributed to the work of two of these advisory bodies, the Pension Reform Council and the Employment and Equity Council. For the latter body the Bank funded studies on part-time employment contracts and ways of increasing female and youth workforce participation rates. For the Pension Reform Council it was a trusted partner for satisfactory delivery of government decisions, helping to implement some dimensions of that consensus-based policy.
- 4.17 **Strengthening of Pension System Management and Information (CH-L1024).** This project was a success, albeit not because of the technical approach it had advocated.<sup>93</sup> Its value-added lay in the Bank’s role as trusted partner to facilitate the program’s delivery and legitimation of its actions.<sup>94</sup> In place of the originally proposed technical solution the Labor Ministry’s Social Security Division (SSPS) opted to split the tender into three separate components (pension eligibility determination, award, and payment). The technology firms thereby engaged had shorter track records but met the timelines, and the information technology solution came in under budget. The management model for payments to new clients in the revamped system likewise diverged from the project proposal.<sup>95</sup> Here too the SSPS

proposal prevailed: an innovative retail model that uses the municipalities to maximize the system's capillarity and have it flow toward the end-client rather than vice-versa.<sup>96</sup> The Bank understood this change and dealt with it flexibly.

4.18 As noted earlier, this operation helped remedy a number of institutional shortcomings, mediating between two ministries with differing capabilities, constituencies, and reliability to deliver solutions.<sup>97</sup> The Bank shared the risks with the government inasmuch as the legal framework in which they were working had yet to be enacted; this helped in the timely delivery of outputs and outcomes.

4.19 The Bank had no other major involvement in other facets of the government's social protection agenda. This social safety net enjoys broad consensus and has efficient institutions. The technical assistance proposed in the CS to redesign the social security system, build capacity in social safety net agencies, and improve the system's products did not materialize. Most of these products were proposed to the Presidential Advisory Council on Employment and Equity, though they did not come out of the Bank's country dialogue.<sup>98</sup>

**c. Fostering inclusion and targeting policies and programs to vulnerable groups**

4.20 The Bank approved loans to assist population segments that were sharing least in the fruits of progress, a vulnerability that could set them up for a life of extreme poverty and fewer opportunities. Funding was approved for a second phase of the **Integral Development Program for Indigenous Peoples (CH-L1014)**. The loan for a program of **Innovative Interventions for Older Adults (CH-L1005)**, including a policy on services for that population, which had been approved at the end of the previous administration's term, finished disbursing. The Bank's support for the other goals (addressing gender equity, persons with disabilities, and people exposed to urban violence) took the form of studies, cooperation actions, and seminars to enrich the dialogue with the government and promote delivery models—a preinvestment that did not crystallize into loans to help with policy delivery in those areas.

4.21 Though the operations that materialized were fewer than the programmed number, those that were approved can be classed as highlights and innovations in the Bank's portfolio execution over the review period. Their merit lies in having meshed a variety of products that yielded benefits across the whole exercise, something not typical for other purposes charted in the CS.

4.22 The above-mentioned two projects were innovative: a project with modest funding helped deliver cross-cutting public policies, its integral approach making it replicable. The solutions tailored a development model to each population segment, supplanting the traditional welfarist approach to poverty with all its drawbacks. These also were solutions informed by the Bank's knowledge input and international experiences that legitimated the proposals. The Bank tapped virtually every one of its product offerings to country-tailor its knowledge contribution in these spheres. Public policy knowledge spaces were broadened, enhancing the work

agendas of other countries and of the Bank itself. In its prominent role as honest broker in complex issues the Bank helped instill an innovative results culture that enhanced the efficiency of resource use standards.

- 4.23 Unfortunately there has been scant dissemination of information on these issues and the learnings in this sphere have not been well promoted on other countries' strategy agendas. In Chile itself some actions have proved difficult to sustain.

## **2. Reducing competitiveness and income gaps with the advanced economies**

- 4.24 To address concerns of stalled productivity<sup>99</sup> the government created the National Council on Innovation for Competitiveness (CNIC) in 2005 as a public-private agency to act as permanent adviser to the President of Chile on innovation and competitiveness.<sup>100</sup> At virtually the same time—as one item on the 2006 presidential agenda charted for the incoming administration's first 100 days in office—Regional Production Development Agencies (ARDPs) were created to decentralize regional economic development and coordinate the work of development agencies in the regions. The complex institutional apparatus required for this initiative is still being developed and adjusted.

- 4.25 The CS correctly discerned the development challenge issues in this sphere but in the diagnostic it underemphasized the institutional coordination failure behind this public policy. The government, for its part, having acknowledged that the lack of dialogue between institutions, programs, and delivery vehicles was a prime concern, did not take measures from the outset to mesh the work of the official innovation agency (CNIC—top-down approach) with work that could come out of the regions as key actors to forge cross-cutting public-private agendas<sup>101</sup> for regional development in ARDPs (bottom-up approach).

- 4.26 The following sections highlight the main specific results of each goal pursued toward this development challenge.

### **d. Innovation and technology development as productivity drivers**

- 4.27 In pursuit of this goal the Bank helped the country deliver its competitiveness agenda, largely by way of loans CH-L1009 (Directorate of International Economic Relations—DIRECON), approved under the previous country strategy, and CH-L1019 (ARDPs). It also approved TC operations and MIF loans. The numerous studies and technical notes produced as inputs for the CS's preparation, on topics bearing on the development goals, helped elucidate the Bank's engagement and identify operations in this area.<sup>102</sup>

- 4.28 From 2006 forward the Bank contributed to the regional economic development component of the government's decentralization agenda (**CH-L1019 for the creation of ARDPs**).<sup>103</sup> The diagnostic premise behind this agenda was that the country needed to work to fix regional economic disparities, using efficient clustering to create sustainable geographic spaces for innovation.<sup>104</sup> Creation of those conditions in the marketplace would encourage innovation, guided by enhanced public-private partnering to develop synergistic ventures to massify

- output supply. That would require a new institutional infrastructure to complement the heavy sector focus that was reducing marketplace potential, slowing the generation of high-technology production demands that are essentially cross-sectoral.
- 4.29 The centerpiece of the ARDP project was the construction of region-specific strategic agendas, though the risk of duplication of effort in that exercise was not addressed. ARDPs were created over the space of three years; innovation and development subcommittees were set up in 15 regions to align ARDP instruments. Production development agendas were charted and 35 Competitiveness Enhancement Programs were instituted. Public-private dialogue was stepped up and procedures for internal resource transfers to ARDPs were improved. However, cross-regional policy coordination and meshing is only now beginning to improve (not having been thought out from the outset) and a clear course for coordination of mesoregional initiatives has yet to be mapped out. The purpose of the program was to coordinate and integrate, from the regional level, local actors and public agencies' production support offerings to meet the competitive needs of MSMEs in the regions. However, the project did little to improve coordination and integration of the activities of the development agencies, which had their own working relationships. Nor was this operation adequately coordinated with other Bank projects, even though they were addressing innovation-related areas or clusters.<sup>105</sup>
- 4.30 One recent development reaffirms the importance of the foregoing concerns and was one of the chief rationales for the nonfinancial product approved in December 2009 (CH-N1055),<sup>106</sup> funded by the Bank and produced with the OECD.<sup>107</sup> A bill currently before the Chilean legislature proposes, among other aims, to remedy the poor coordination between the ARDPs and the respective regional governments and to tighten regional-national coordination as well.<sup>108</sup> The approach that would be brought in if this bill is enacted would make already-complicated institutional arrangements even more complex and would delegitimize the ARDPs and the newly created Regional Production Development Corporations (CRDPs) as regional innovation actors.<sup>109</sup>
- 4.31 Work continued on the **Strengthening of the Institutional Capacity of the Office of International Economic Affairs (DIRECON) (CH-L1009)** to enhance free-trade agreement administration and implementation capacity, those accords being the country's chosen avenue to diversify markets and boost exports. The project ended up being overscaled: Chile has such a large body of experience in these matters that it did not need all the originally planned support. A notable feature of this operation was the ProChile-executed component to improve systems and tools to be able to act on opportunities that come out of trade agreements.<sup>110 111 112</sup> These mechanisms were piloted, with innovative and replicable results. Other Bank facilities supported private-sector initiatives and training for SMEs (mostly with MIF funding) to make the most of the new marketplace climate for profitable production innovation.

- 4.32 Good results were achieved also in the support provided to DIRECON to design and deliver the strategic plan and IT system and in capacity enhancement to administer the trade and free-trade agreements already in place. In the case of the new FTAs, though the Bank's support did make some difference those accords were charted for the most part without the project.
- 4.33 As discussed earlier, this loan's strategy for enhancing competitiveness was built around support for regional clusters; this created duplication, since studies to identify candidate clusters were produced both under the DIRECON loan and the ARDP loan. To avoid further duplication the cluster support component of the DIRECON operation was dropped, leaving that activity to the ARDP project.
- 4.34 Interventions were designed and executed without having anticipated the impact of institutional inconsistencies and the lack of timely communication of activities, which made for duplications or poor coordination. Though the operations' objectives converged they were not handled as synergistic, cross-benefiting ventures<sup>113</sup> even though streamlined institutional frameworks and interaction of converging responsibilities are known to be essential for efficient results delivery. There was insufficient dialogue across the approved Bank support products even though they were facets of a single public program and in some cases involved the same parties performing converging activities in the same place.<sup>114</sup> No activities had been planned to mesh with the national system, results were not well disseminated, and the reactive approach (act when problems emerge) pushed up opportunity costs.
- 4.35 Even though the CS had identified the CNIC as a priority support focus,<sup>115</sup> the interventions delivered toward the goal reviewed here were incomplete, doing nothing to fix coordination failures with the national innovation system. In the institutional dimension the division of regional and central government responsibilities and functions was unclear. Though there was region-led governance in response to the government initiative, no prior diagnostic assessment had been done to underpin the logic of the solutions supported.<sup>116 117</sup>

**e. Strengthening the external sector as an economic development driver**

- 4.36 The Bank approved operations to develop special-interest tourism, recently identified as one cluster with potential to diversify and enhance the country's competitiveness and foster environmental sustainability and natural resources conservation. Assistance was provided for implementation of recent country legislation. These sectors previously had received support in the form of numerous NFPs, TCs, and PRGs. Both the projects had an associated PROPEF.<sup>118</sup>
- 4.37 One set of projects that finished executing in the review period<sup>119</sup> was closely connected to other ongoing<sup>120</sup> or recently approved projects.<sup>121 122</sup> Like the situation noted earlier in the discussion of other CS goals, the support and work in these operations was sector-focused and the weak coordination between them<sup>123</sup> diluted the Program's outcome synergies.

- 4.38 The **Tourism Development Program (CH-L1023)** approved in January 2010 had been held up by issues with the Transantiago project. This innovative venture, which came out of a specific knowledge base, is designed to have permanent technical support. The Bank deployed its entire product menu to prepare the program, helping to bring about improvements in new domains with focus<sup>124</sup> and replicability. The delivery model was built around three concerns that were addressed together to heighten impacts: insufficient know-how, weak institutions and conflicts between actors who are pursuing the same goal, and interaction of activities of a number of executing and subexecuting agencies behind a single work agenda. To minimize conflict drivers the program replaced the concept of executing agencies or counterparts with the concept of partners in a single enterprise that engages all the parties to deliver outputs and outcomes.
- 4.39 The **Program to Strengthen the Management Capacity of the National Forest Service (CONAF) (CH-L1021)** was approved in January 2010, that date likewise the result of the Transantiago project situation. This program is helping to build up management capacity in CONAF as the environmental regulator and compliance authority for forestry activities and the steward and safeguarder of the nation's environmental heritage. Development of primary forestry activities being another of CONAF's mandates, the core challenge is to devise an institutional base for the agency to perform those two roles well without conflicts. CONAF sees itself as part of the tourism cluster, promoting landscape and nature tourism that is an underdeveloped niche in Chile. One key outcome sought is the branding of CONAF as an agency that can help in sustainable management of the nation's natural resources base. This program, like the tourism program, had received prior PROPEF support and the 2008 and 2009 national budgets contained funding lines for it as though the loan's approval were imminent. Its much-later approval created imbalances between the activities, which are not being delivered in the original timelines, and accounting for the approved budget monies.
- 4.40 The chief result of the **Community-based Tourism Development Program in Chiloé and Palena (CH-0172)** was the important two-fold lesson that emerged from it and informed subsequent Bank project designs in Chile.<sup>125</sup> First, restoring heritage assets and devising and instituting a management model for sustainable heritage restoration are equally important. And, second, restoration is a multidisciplinary activity that requires specialized resources that are not always available, if they exist at all. Goods and services procurement rules for heritage asset restoration need to be flexible to allow more sole-source contracting.

**f. Other goals**

- 4.41 There were no new loan approvals to pursue the goals of supporting the new round of public utility regulatory reforms—notably for electricity service, capital market development and strengthening, or boosting SME productivity. The Rural Electrification Program (CH-0174) approved in 2003 finished executing in the review period and the Bank approved technical-cooperation funding (CH-T1043) under the Sustainable Energy and Climate Change Initiative (SECCI) to assist with

- the National Energy Efficiency Program. Supplemental support was provided by a MIF technical-cooperation operation (CH-M1009) to promote clean energy market opportunities.
- 4.42 Loan **CH-0174** for the Rural Electrification Program was the largest contributor to the Chilean Regional Development/Rural Electrification Fund created as a special budget line. Additional funding came from the Global Environment Facility. The program's objective was to raise living standards of the low-income rural poor, reducing exclusion by means of efficient, sustainable electric system extension. This project was a precursor to the core objective of the CCLIP CH-X1001 approved in the period examined here.
- 4.43 The goals sought in terms of newly electrified households (grid connections or self-generation) were achieved, though for a variety of reasons a percentage of the population still does not have electricity.<sup>126</sup> Too little data were available to demonstrate that this policy of closing rural electrification gaps is sustainable on the funding side<sup>127</sup> or the institutional side. Moreover, the project's specific contribution to the government program was not measured. A number of risks identified at entry and in the project's progress monitoring reports were not included in the substantiation of outcomes. Lastly, some environmental issues that came up in the project required in-process reformulations, which ended up showing how such issues could be managed in Bank projects thereafter.<sup>128</sup>
- 4.44 Technical-cooperation operations CH-T1043 and CH-M1009 provided support to the Energy Efficiency Program, with funding for studies, institutional reforms, and demonstration projects<sup>129</sup> to encourage the transition to renewable energy sources and energy efficient technology.<sup>130</sup> The Bank operation's chief result was assistance in setting up the Chilean Energy Efficiency Agency. It also helped frame the delivery of the MIF program still under way.<sup>131</sup>

#### **g. MIF program**

- 4.45 All MIF interventions in 2006-2009 focused on this development challenge of reducing income and competitiveness gaps with the advanced economies. Their general focus was innovative and sustainable initiatives to scale up demonstration or pilot model results. For the most part the operations were targeted on public and private actors with insufficient institutional capacity to deliver innovative projects,<sup>132</sup> and to create an enabling economic and regulatory environment to help businesses become competitive and productive.
- 4.46 The CS goals programming had encompassed the medium term but operations were confined to the short term 2006-2007. Twenty-three TC grants and three loans were approved in the period for a total of US\$25.9 million; as of February 2010, 25% of that figure had been disbursed. Virtually all the approvals pursued two of the four identified goals: strengthen regional agencies and clustering to foster innovation and boost productivity (42%) and enhance the production capacity of MSMEs (50%).<sup>133</sup> Two operations—CH-M1009 and CH-M1013—were intended to assist in public-utility regulatory reform; the activities proposed in the CS for microfinance

expansion and low-cost housing were not addressed with any substantive supports.<sup>134</sup>

- 4.47 When this evaluation was produced all projects approved in 2006-2009 were still executing, so it is too early to derive any firm findings or learnings. However, we can cite some of the main findings of a review of a set of projects approved before 2006 which executed substantially in the review span.<sup>135</sup> Only two of the seven operations in question<sup>136</sup>—Government E-Procurement Support for SMEs (CH-M1005) and Development of an Electronic Invoicing System and Tax Portal for Micro and SMEs (CH-M1004)—were termed successful and sustainable. The others did not achieve their objectives, with the exception of CH-M1002, Seed Capital Facility, which despite its slow progress is likely to be sustainable.<sup>137</sup> The chief lesson that emerges is that “the selection of the agency to implement the operations is a substantive consideration to reduce the risk of their failure.” The kinds of issues identified are affecting ongoing projects but are being anticipated.

### **3. Making government more efficient and bringing it closer to the citizenry**

- 4.48 The Program concentrated on two goals to meet this challenge. The first was to continue strategic partnering for regional development, with special attention to remedying disparities between regional and national governance capabilities.<sup>138</sup> The second was to strengthen national governance, continuing with operations approved during the previous political cycle.
- 4.49 The following sections discuss the main results achieved under each goal for this development challenge.

#### **h. Sustainable regional development**

- 4.50 This CS goal was addressed with the 2007 Conditional Credit Line (**CCLIP CH-X1001**)<sup>139</sup> under which five loans have been approved to date. This facility addresses a shift in the country’s regional public investment logic, moving away somewhat from the local development intervention model essayed in the Valparaíso project.<sup>140</sup> These actions formed part of the decentralization agenda that sought to close service infrastructure gaps in the regions. The country sought Bank support for areas where there was no clear sector authority. That agenda also helped in the creation of the Regional Production Development Agencies (ARDPs) to reduce cross-regional economic development disparities.<sup>141</sup> The OECD studies<sup>142</sup> were important inputs for the diagnostic assessment of regional development issues.
- 4.51 This multisector CCLIP to strengthen subnational governance and municipal investment planning was executed by the Regional Development and Administration Bureau (SUBDERE) as part of the Finance Ministry Budget Directorate (DIPRES) budget strategy that creates financial space for those sectors, reflecting the government’s long-range vision. The objective was to make spending more efficient in order to close the equality gap in selected sector services in the regions, seeking sustainable solutions. Accordingly, each approved loan has its own management model.

- 4.52 The diagnostic underpinning for the credit line was that what the country needed was not investment resources but a buildup of executing agencies' institutional capacity, which ultimately would deepen real decentralization of authority and responsibility in the country.<sup>143</sup>
- 4.53 The first loan under this CCLIP was for **Support for Subnational Governance in Chile (CH-L1018)** to strengthen SUBDERE, which was mandated with creating modern governance capacity in the regional governments. The mechanism created with support from this project to focus the public investment logic at the regional government level was aligned on the government's strategic priorities and long-range vision, which required each investment in a region to be planned and leveraged using a demonstrably sustainable management model.
- 4.54 The result delivered was a new mechanism to focus the public investment logic at the regional government level, more closely aligned to strategic priorities and taking a long-range view that would see each investment planned and leveraged within a sustainable management model. The Bank's involvement made for better organized and more rigorous output delivery and helped devise a modern regional decision information system. This should make regional decisions more consistent and better scaled from the standpoint of demand and budget expending, but the question of the regional development impact of such decisions and of the outputs that embody them was underemphasized.
- 4.55 This loan was approved in 2006 but by February 2010 it was only 27% disbursed. That figure confirms that the project's importance has been more qualitative than financial and suggests an overscaling of funding in the design at entry which failed to anticipate local counterpart budget availabilities. The project's low disbursement rate is indicative also of capacity constraints for decentralized governance, which is what the project sought to remedy. There is no clear information about this in the Bank's periodic performance monitoring reports, which rate the project's implementation progress satisfactory.
- 4.56 The **Rural Sanitation Program (CH-L1025)** for which the Bank approved a PDL in 2007 is helping to deliver the national program to raise rural living standards, deploying cost-efficient, sustainable solutions to narrow water and sewer service coverage gaps. The disbursement targets are independently verified, by number and cost of household connections, but the effect of this new service access on the beneficiaries' welfare is not being measured.
- 4.57 The use of country fiduciary systems facilitated SUBDERE's transactional management of the program, so this was not the reason behind the difficulties in delivering targets in the agreed disbursement timelines. It would appear that these problems came up because, in the absence of rural sanitation system regulation, service quality and cost standards for urban clients were used, with the resulting effects on the solution's financial viability. The risk of actual costs exceeding the rural standard did materialize and the project had no mitigating measures in place. According to this project's results, if this holds across the public program more

- investment and more subsidies<sup>144</sup> and maintenance will be required to close equality gaps. The budgets have not been updated to reflect that eventuality. Moreover, the type of technology and standards being used are administered by local organizations that often do not have the requisite knowledge.
- 4.58 The aim of the **Integrated Solid Waste Management Program (CH-L1026)**, funded by a PDL approved in 2008, is to improve urban and rural sanitation conditions and environmental quality nationwide by means of integrated, sustainable, efficient household waste management systems. The project helped implement waste management regulations enacted in 2008. Since the legislation had not created an institutional framework the project helped generate those capabilities and mediate between SUBDERE and the separate project executing agencies.
- 4.59 The project was successful in instituting cost standards but costs had been underestimated in the design at entry, the counterpart's opinion to the contrary notwithstanding. The costs later were adjusted but the project targets were not: they remained associated to the original costs.<sup>145</sup> If this situation generalizes the resources will not be enough to deliver the set targets. For the most part the comments above about the Rural Sanitation Program apply to this program as well: municipal capacity shortcomings; acting without formal regulations in place to legitimate results; the risk of lower cost recoveries when costs exceed the estimates and the project has provided no mitigating measures, which ultimately compromises the service's sustainability; and the use of a PDL purely for its transactional advantages.
- 4.60 The **Heritage Preservation Program (CH-L1032)** approved as a PDL in 2008 is intended to preserve and put into use heritage built assets designated (or proposed) as national historic monuments so they can produce socioeconomic benefits that will help their sustainable development. This project's investment approach, calling for self-sustaining management that respects each city's distinct identity, is recommendable for any urban development program.
- 4.61 The requirement of prefeasibility studies for initiatives that were candidates for funding, to verify their sustainability, slowed the execution of this program since the studies and other preimplementation work were fairly complex. The strategy dissemination component was weak, perhaps because the demand for support eclipsed the funding available. The initiatives also took time to develop and deliver.<sup>146</sup> <sup>147</sup> Insufficient interface with other of the Bank's projects whose objectives and activities partly converged with this program diluted CS outcome synergies and made for inefficient design implementation.
- 4.62 The **Bicentennial Cities Program (CH-L1033)** approved in 2010 as a CCLIP seeks to institute a reimbursable municipal financing mechanism which, within a fiscal discipline framework, would help build up municipal government strategic planning and investment capabilities. This project, along with five others, had been prepared much earlier but secured approval only recently owing to the approvals

- freeze caused by the Transantiago project situation. Since the projects have yet to be ratified by the new administration, care is needed in assessing the CS results.
- 4.63 This project, designed with mayors and national and international authorities, was emblematic of the country's deepening decentralization. Missions were fielded to learn about similar experiences of note and universities and renowned practitioners were brought in to develop a municipal financial capacity assessment methodology. The project was underpinned by a sound context analysis and prior groundwork in the candidate municipalities, and provides for an innovative, transparent mechanism for fiduciary risk rating by private agencies.
- 4.64 The **conclusion as to the CCLIP performance** to date is that its constituent loans are executing slowly and the management models are costing more than the at-entry estimates, meaning that more permanent expenditure will be required for subsidies and maintenance. We found no measurement of the projects' fiscal impact on public spending or evidence of planning of how to manage the cost increases in the public program being supported, the end-goal of which is to eradicate regional disparities in the targeted services. The PDL's transactional advantages made it a convenient vehicle but target-delivery difficulties had not been anticipated, this being one of the factors constraining the CCLIP disbursement rate, which is low.<sup>148</sup>
- 4.65 The purpose of the **Valparaíso Urban Rehabilitation and Development Program (CH-L1004)** approved in 2005 in the previous CS cycle was to help revitalize the city of Valparaíso, preserving and developing its urban heritage assets to drive new economic, cultural, and social activities that would benefit city residents.<sup>149</sup> A low-income city in the midst of a high-income part of the country, Valparaíso has had to contend with the problems typical to cities of that kind and other more specific ones: years of economic decline as its port operations shrank, natural disasters and their aftermath, and eroding city services. The loan's early-2010 41% disbursement rate was indicative of structural issues rather than simply implementation slippages. Though the project's performance evaluations have been inconclusive it likely will substantially underperform the original targets.
- 4.66 A number of interim evaluations called for in the project's design have been produced by the Bank, DIPRES, and independent agencies. Those assessments raise questions about the project's design and implementation, mostly concerning Valparaíso Municipal Government capacity shortcomings to deliver the project and mismanaged expectations. Loan proceeds budgeted at entry for capital outlays were used to defray current expenditures of the Municipality. The Bank's midterm review affirms that the project essayed an innovative city-center development model backed by a set of studies that showed it to be well-designed and rigorous. The Bank has focused on implementation issues. The various monitoring reports say that it is too soon to establish the causes and responsibilities for the project's poor performance and that it should not be termed a "failure" as long as it still is executing. According to the country implementing agencies the model was not a good one because it created excessive expectations. The political and institutional risk exposure of a municipally-led urban development model that had no precedent

in Chile<sup>150</sup> had not been duly weighed. Results on the institutional-strengthening side are not considered good.

- 4.67 The challenge going forward is what to do with the project, the political will to deliver it obviously being a necessary ingredient. Its accomplishments to date are minor, with debatable results from a long-range urban development standpoint. The project design was overly optimistic, pointing up risks that were bound to materialize given the background and diagnostic data at hand. That suite of risks did materialize, along with others that emerged as the project unfolded, with the documented impact on its progression. Three other risks not identified at entry had to be managed as well.<sup>151</sup>

**i. Fostering accountable, participatory governance**

- 4.68 The goal of national governance accountability was not duly reflected in the CS. At a time when the Bank had recently begun delivering grant funding to interest and assist Chile in transparency and probity initiatives there was no mention of the importance of what is one of the prime rationales for the Bank's strategic country engagement.

- 4.69 As discussed earlier,<sup>152</sup> for Chile the Bank's preeminent value-added lies in its contribution to country accountability, complementing actions in the fiscal dimension, and support and monitoring of the operation of sectors with weaker institutional capacities. The country also values the Bank's ability to mediate and help with organization design.<sup>153</sup> The Bank does not visualize the potential of this role—more cross-cutting than sector-focused—to scale up its interventions, having underemphasized this as a development challenge in its country strategies. Nevertheless, the Bank's supports for institutional capacity building and decentralization have been the two core value-added niches in its work with Chile. The findings of the present evaluation underscore the importance of preserving those advantages as a priority challenge going forward. Thus far the importance of that role in scaling up the Bank's portfolio has been underplayed in preinvestment work and learnings analysis.<sup>154</sup>

**j. Enhancing national governance**

- 4.70 There are a number of contextual factors behind the results delivered toward this goal. First, most of the Bank's operations were designed to implement initiatives that came out of government diagnosed and designed policies, with an enabling legal and institutional framework.<sup>155</sup> Second, they helped deliver government programs in which a variety of players were interacting without reliable coordination arrangements to arbitrate the different responsibilities and actions. In its capacity as honest broker the Bank brought its knowledge of experiences and solutions to bear on issues objectified by the operations. Third, all the loans pursuing this goal had been approved in the previous CS cycle, though they executed mostly in the period reviewed here. The interventions formed part of the CS results but we found no explanation for their ratified priority—that having

simply been assumed because the operations were executing. As we discuss later, this assumption affected the desired results.

- 4.71 In the above-described environment the only Bank approvals toward this goal were programming support products (to prepare the CS), TC grants, and nonfinancial products. A first possible interpretation might be that the Bank funding was not needed and thus had been overscaled,<sup>156</sup> but the evaluation findings point to another explanation: regardless of its State model and the strategic objectives pursued with that model it is clearly apparent that Chile needs to reduce institutional capacity disparities and inconsistencies across sectors and tiers of government.<sup>157</sup> That was a result in most of the Bank projects in pursuit of all the CS development challenges, though it was not recognized as such for the goal discussed here.
- 4.72 In the governance dimension the country looks to the Bank for assistance in institutional capacity building in sectors that have constraints for public program delivery coordination. Chile sees the Bank as contributing in that regard with its delivery performance standards and respecting the public sector logic and the results sought.<sup>158</sup> The Bank ought to view its contribution from that same perspective.
- 4.73 The following sections outline the main results of Bank interventions in pursuit of this CS goal.
- 4.74 The **National Civil Service Directorate (DNSC) Strengthening Program (CH-L1008)** sought to modernize public-sector human resources management, premised on the idea that human talent is a critical factor to better equip governments to deliver good public policy. A competent civil service was viewed as a means rather than an end. The program activities pursued three goals: (i) extend the merit criterion to senior government executive (SGE) appointments and renewals, tying these to performance contracts that state what is expected of officials and under what terms their appointment will be renewed; (ii) deliver training in competencies development for middle management and administrative staff, and (iii) match civil service compensation packages to private sector levels to be able to attract and retain more highly qualified professionals and thereby make the rest of the proposed changes viable.
- 4.75 The program experienced slippages in the early years because of the change in administration, but implementation progress picked up in 2007 with the new authorities in office. The design at entry had been ambitious and not confined to the identified issues. Over time the original intent of supporting regular, permanent DNSC functions gave way to a focus on the SGE system.
- 4.76 The country participants valued the Bank's flexibility to rethink and reallocate original budget lines and products to adapt to the new circumstances, but the agreed adjustments and product eliminations were not tracked and still are reported as "pending." Other than that, the program's delivery performance is rated positively.<sup>159</sup> The SGE system has reshaped government executive profiles: the core profile requirements now are leadership and teamwork ability and confidence in the

- political system. The idea that merit is fundamental in the public service has been publicly validated. Though training was provided for the middle management level the program achieved no substantive changes in that tier.
- 4.77 The problem of senior government personnel recruiting was effectively addressed, though some areas needing adjustment were identified, specifically the matter of performance appraisals of these new public officials hired under performance contracts and of public employees generally. A recently approved technical-cooperation grant (CH-T1079, Performance Evaluation of Public Managers and Civil Servants in Chile) was to have piloted a new executive recruitment and selection system.<sup>160</sup> Among other criticisms it was said that the loan funding had been used for outputs that provided no additionality, particularly the posting of competition notices or digitizing of *curricula vitae*.<sup>161</sup> Since the program had been generally overscaled at entry its second and third components ended up overscaled as well, the diagnostic that had seen a role for it in closing the information technology gap not having been shared.
- 4.78 The **Support Program for Parliamentary Functions (CH-L1011)** proposed to enhance legislative functions by developing the Chilean Congressional Library (BCN) and fostering a closer relationship between the Congress and the Chilean people. The goal was to change the BCN's traditional role as book depository to that of knowledge manager and generator equipped to produce the contents that legislators need to do their work.
- 4.79 The program design exercise was not without its contradictions and advances and setbacks, reflective of the BCN's effort to recast its strategy. The Bank had difficulty apprehending the unique features of the legislative branch that distinguish it from the executive branch for delivery of this operation. The results achieved were innovative and should be used as learnings to inform similar initiatives. The BCN was transformed from library of objects to demand-driven knowledge generator. The new client-needs-driven approach addressed three problems<sup>162</sup> that had left lawmakers without timely background information for their deliberations and to explore Executive Branch proposals, and thereby strengthened the machinery of democracy. A substantial increase in the BCN's independent budget enabled it to embed the external congressional advisory model.<sup>163</sup> Careful personnel recruiting and the client focus were keys to the project's success.<sup>164</sup>
- 4.80 The purpose of the **Digital Strategy Strengthening Program (CH-L1001)** was to bring Chile more fully into the digital age by increasing information and communication technology access and use as a development driver. Since Chile already has the LAC region's highest ITC penetration and connectivity rates the project started out with an operational digital agenda.
- 4.81 The program experienced implementation issues. The first phase was not completed by 2006 and the second phase never happened, despite a November 2007 request from DIPRES.<sup>165</sup> The original idea that the digital strategy policy could continue into the new administration, navigating through the problems of the transition, was

- <sup>166</sup> The project dropped on political and institutional priority lists. Though not opposed to the digital agenda the government did not give it high enough priority to avert the slippages that quashed the program's second component. This combination of factors explains the operation's low implementation progress since 2006. As a compounding factor, the right institutional infrastructure for the program's "smooth transition" was not in place; to the contrary, targets were not delivered and funds were left over. A survey came up with negative perceptions of the transaction costs of executing the project.<sup>167</sup> Eventually the large idle balances and second-phase planning work were shifted toward more deliverable results.<sup>168</sup> More technical assistance was provided to expedite implementation, bolstering the client service quality focus (online services, digital literacy, connectivity via telecenters) with an emphasis on services where the digital divide is the widest.
- 4.82 In the end the program did accomplish some of its objectives. Country participants rate the operation with the Bank both incomplete and successful. Some of the initiatives were delivered in full and came in for praise,<sup>169</sup> high marks being given particularly to the adaptation of Bank-advocated contents and to the work's technical caliber.<sup>170</sup> The operation lost momentum not just because it receded in priority but because it had viewed the digital agenda as an end rather than a means.
- 4.83 **The Program for the Strengthening of the Judiciary Administrative Corporation (CAPJ), CH-L1012**, pursued a very broad objective of enhancing efficiency and quality of the services the CAPJ is tasked with providing to the judiciary to help enhance justice administration in Chile.
- 4.84 The government and the judicial branch in particular have rated this experience positively. The program delivered its goals. A second operation with the CAPJ is now being developed<sup>171</sup> to cement the changes achieved in the first operation and extend them into new spheres such as jurisdictional management, particularly to enhance the quality of justice. All the reported implementation issues were procedural or otherwise nonsubstantive.<sup>172</sup> Despite those problems the participants valued the Bank's flexibility to change decisions, such as in-process reallocating of program funding. Some of these problems were acknowledged to be learning costs.<sup>173</sup> Beyond this, substantial progress clearly was made on planning and developing tools for the process reengineering the CAPJ wanted, this being the main reason for designing a second operation.
- 4.85 The operation's biggest success was to reengineer processes for the CAPJ's internal client centered services. This improved judges' work and expedited the administration of justice (with abbreviated procedures). Another notable achievement was the adoption of a continuous management model using a robust and transparent balanced scorecard with a built-in early warning system. The program helped legitimate the reform within the judicial branch and enhanced the public image of the justice system. The Bank's political neutrality gave the program a professional stamp, allaying fears of change. The operation also tapped international experiences to rethink the country's justice administration model.

#### **4. CH-L1052: The Transantiago urban transit project**

- 4.86 In February 2006 the city of Santiago changed over its urban passenger transit system.<sup>174</sup> The new system was rolled out citywide on the same day without testing and with no system in place to monitor bus frequency. Since this was a phased investment the rapid bus corridors were still not operational, and no arrangement had been made for explicit subsidies to bring in balanced operating results. The system plunged into deficit and needed a substantial increase in transit tariffs relative to the long-range level.<sup>175</sup> When the legislature refused to approve the subsidies in the budget (November 2007) the Chilean government sought a US\$400 million nonsovereign guaranteed loan from the Bank to avert the Transantiago system's collapse. The purpose of this project, which had not been envisaged in the CS, was to provide a bridge loan to keep the city's mass transit running while a sustainable funding formula was arranged for the Transantiago system. This was an unusual case for the Bank, since the prospective borrower was a corporation that was running a cash flow deficit at the time and there were no assurances that a temporary subsidy<sup>176</sup> would be approved until the deficit reached the permanent subsidy level in 2015.<sup>177</sup>
- 4.87 In April 2008 the Bank's Board of Executive Directors approved the loan to a conglomerate operating under private law, the "Transantiago Financial Management Corporation" (AFT). The loan did not have to go through the Congress. Between June and August 2008 the Bank released three disbursements totaling US\$288.3 million. The government had provided two letters of undertaking to bolster the legal and administrative authority to deliver on the Transantiago obligations and repay the eventual undertaking with the Bank.<sup>178</sup>
- 4.88 The government issued executive orders authorizing the operation with the Bank. In September 2008 the Constitutional Court ruled these orders unconstitutional, whereupon the loan went into technical default and the Bank froze all lending to Chile. Loans awaiting approval, along with technical-cooperation operations (including regional ones), were halted. In August 2009 the legislature approved a subsidy to make up the Transantiago operating deficit and included arrangements for other regions experiencing similar mass transit problems. It also approved repayment of the Bank's loan disbursements.
- 4.89 In the year-plus between the ruling that the executive orders authorizing the loan were unconstitutional and the approval of the ultimate solution the Bank was asked to account for its involvement. The March 2009 report of the Investigating Committee on the IDB-Transantiago Loan<sup>179</sup> was critical of the Bank for having acted carelessly in granting the loan (which had bypassed the legislature) without the proper checks, accepting government assurances and undertakings to underpin the loan that, in the end, violated Chile's laws and constitution.
- 4.90 Today Transantiago's operating problems have decreased dramatically, many of the technology issues and service unit failings having been remedied. According to operating figures the system is delivering its original goals.<sup>180</sup>

- 4.91 For Chile the Bank's involvement in this operation had less to do with funding than with providing a seal of quality, as a respected lender that could expedite the formal institution of the subsidy system. The Bank gave continuing assurance that it could do everything asked of it even in the absence of clear legal and administrative arguments to justify that involvement. Moreover, since the country had the ability to make up the deficit there was no need for the loan to be nonsovereign guaranteed.
- 4.92 Just as important was the Transantiago situation's devastating fallout for the Bank's pipeline and hence its impact on the results matrix of the CS examined here.<sup>181</sup> This also created problems for the work plans of programs with approved budget lines.

## TABLES AND FIGURES

**Table 1: Chile. Political economy of the country strategy**

| IDB value-added   | Weighted by number of loans <sup>1/</sup>  |  |       | Weighted by approval amounts <sup>2/</sup> |                              |       |
|---|--|--|-------|--|------------------------------|-------|
|   | Approvals<br>2000-2006<br>CS <sup>3/</sup> | Approvals<br>2006-2010<br>CS <sup>4/</sup> | TOTAL | Approvals<br>2000-2006<br>CS               | Approvals<br>2006-2010<br>CS | TOTAL |
| Honest broker for complex issues and neutrality   | 44%  | 100%                                       | 75%   | 15%  | 100%                         | 85%   |
| Specific expertise in design of public policy delivery projects   | 33%  | 27%  | 30%   | 18%  | 2%                           | 23%   |
| Discipline. Ability to organize operations delivery, particularly where different players and coexecuting agencies are involved | 67%  | 100%                                       | 85%   | 38%  | 100%                         | 89%   |
| Policy legitimation or validation   | 44%  | 18%  | 30%   | 52%  | 18%                          | 24%   |
| Reducing public policy reversibility  | 44%  | 45%  | 45%   | 17%  | 30%                          | 28%   |
| Flexibility. Lowering of transaction costs  | 67%  | 82%  | 75%   | 62%  | 82%                          | 78%   |
| Transfer of country lessons   | 78%  | 36%  | 55%   | 41%  | 28%                          | 30%   |

<sup>1/</sup> 20 loans approved or executing substantially in 2006-2010.

<sup>2/</sup> US\$626.3 million equivalent.

<sup>3/</sup> Loans CH-0172, CH-0174, CH-L1001, CH-L1004, CH-L1005, CH-L1008, CH-L1009, CH-L1011, CH-L1012.

<sup>4/</sup> Loans CH-L014, CH-L1018, CH-L1019, CH-L1021, CH-L1022, CH-L1023, CH-L1024, CH-L1025, CH-L1026, CH-L1032, CH-L1033.

**Source:** OVE, from field work and interviews.

**Table 2: Chile. Programming relevance and efficiency**

| Type of operation                 | Indicators          |        |                       |        |
|-----------------------------------|---------------------|--------|-----------------------|--------|
|                                   | Anticipation rate * |        | Improvisation rate ** |        |
|                                   | Number of projects  | Amount | Number of projects    | Amount |
| <b>IDB loans ***</b>              | 97%                 | 92%    | 8%                    | 2%     |
| <b>MIF</b>                        | 50%                 | 31%    | 90%                   | 92%    |
| <b>Technical cooperation (TC)</b> | 88%                 | 78%    | 50%                   | 53%    |

\* The ratio of approved programmed projects to total programmed projects (approved and not approved), by amount and number of projects.

\*\* The ratio of approved unprogrammed projects to total approved projects (programmed and unprogrammed), by amount and number of projects.

\*\*\* IIC loans not included.

**Table 3: Chile. Coherence of programming with financing instruments**

| Type of lending product *         | % of total programmed |             |             |             | % of total approved |             |             |             |
|-----------------------------------|-----------------------|-------------|-------------|-------------|---------------------|-------------|-------------|-------------|
|                                   | 2000-2005**           |             | 2006-2010   |             | 2000-2005**         |             | 2006-2010   |             |
|                                   | Amount                | Number      | Amount      | Number      | Amount              | Number      | Amount      | Number      |
| Flexible (INO, SEF, PEF)          | 24%                   | 67%         | 1%          | 24%         | 24%                 | 67%         | 1%          | 28%         |
| Programmatic (PFM, CLP, PBP, PDL) | 9%                    | 6%          | 85%         | 47%         | 9%                  | 6%          | 82%         | 39%         |
| Traditional investment (ESP)      | 64%                   | 22%         | 13%         | 24%         | 64%                 | 22%         | 17%         | 28%         |
| Policy-based (PBL)                |                       |             |             |             |                     |             |             |             |
| Technical-cooperation loan (TCR)  | 2%                    | 6%          | 1%          | 6%          | 2%                  | 6%          | 0.3%        | 6%          |
| <b>TOTAL PUBLIC SECTOR</b>        | <b>100%</b>           | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b>         | <b>100%</b> | <b>100%</b> | <b>100%</b> |
| Sovereign (public sector)         |                       |             |             |             |                     |             |             |             |
| CLP                               |                       |             | 7%          | 5%          |                     |             | 8%          | 5%          |
| ESP                               | 64%                   | 22%         | 12%         | 21%         | 64%                 | 22%         | 14%         | 24%         |
| INO                               | 12%                   | 11%         |             |             | 12%                 | 11%         |             |             |
| PBP                               |                       |             | 6%          | 5%          |                     |             | 2%          | 5%          |
| PDL                               |                       |             | 52%         | 21%         |                     |             | 52%         | 19%         |
| PEF                               | 1%                    | 33%         | 0%          | 21%         | 1%                  | 33%         | 0%          | 24%         |
| PFM                               | 9%                    | 6%          | 8%          | 11%         | 9%                  | 6%          | 7%          | 5%          |
| SEF                               | 11%                   | 22%         |             |             | 11%                 | 22%         |             |             |
| TCR                               | 2%                    | 6%          | 1%          | 5%          | 2%                  | 6%          | 0%          | 5%          |
| Nonsovereign (private sector)     |                       |             |             |             |                     |             |             |             |
| PSL                               |                       |             | 13%         | 11%         |                     |             | 16%         | 14%         |
| <b>TOTAL</b>                      | <b>100%</b>           | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b>         | <b>100%</b> | <b>100%</b> | <b>100%</b> |

\* Excludes the Transantiago loan that was cancelled.

\*\*The only 2005-2005 projects reviewed were those that were executing in 2006-2010.

**Table 4: Chile. Country Strategy evaluability, 2006-2010 cycle**

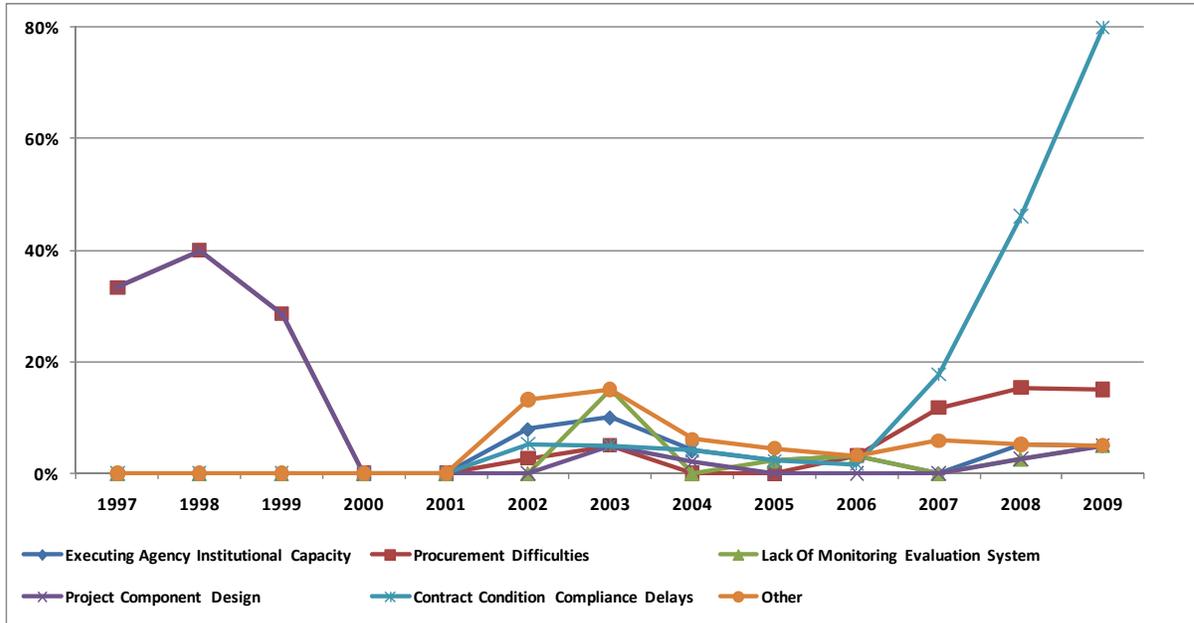
| Strategic results   | Evaluability index | Indicators | Baselines | Milestones | Targets |
|---|--------------------|------------|-----------|------------|---------|
| <b>TOTAL</b>  | <b>0.31</b>        | 0.67       | 0.24      | 0.00       | 0.31    |
| 1. Reduction of opportunity gaps  | <b>0.28</b>        | 0.61       | 0.19      | 0.00       | 0.30    |
| 2. Reduction of competitiveness and income gaps with the advanced economies | <b>0.11</b>        | 0.30       | 0.07      | 0.00       | 0.07    |
| 3. Making government more efficient and bringing it closer to the citizenry | <b>0.43</b>        | 0.94       | 0.12      | 0.00       | 0.66    |
| 4. Business model   | <b>0.41</b>        | 0.83       | 0.58      | 0.00       | 0.21    |

**Table 5: Chile. Average project development and implementation times  
Loan approvals since 2001 (in number of months)**

| Case              | Pipe start to Profile2 | Profile 2 to approval | Approval to signature | Signature to ratification | Ratification to first elig | Signature to first elig | First elig to first disb | First elig to orig disb | First elig to full disb | Orig disb to full disb | Start-Original | Start-Full Disb. | First Elig-Full Disb. |
|-------------------|------------------------|-----------------------|-----------------------|---------------------------|----------------------------|-------------------------|--------------------------|-------------------------|-------------------------|------------------------|----------------|------------------|-----------------------|
| <b>Chile</b>      | 4.75                   | 8.00                  | 3.00                  | 1.70                      | 5.63                       | 7.00                    | 0.75                     | 42.25                   | 53.00                   | 16.50                  | 65.33          | 76.08            | 53.00                 |
| <b>Bank</b>       | 15.92                  | 9.27                  | 4.03                  | 6.58                      | 2.84                       | 9.42                    | 2.53                     | 41.70                   | 77.75                   | 36.05                  | 80.34          | 116.39           | 77.75                 |
| <b>PDL, Chile</b> |                        | 7.50                  | 3.00                  | 3.00                      | 10.75                      | 13.75                   | 0.75                     | 50.75                   |                         |                        | 75.00          |                  |                       |
| <b>PDL, Bank</b>  |                        | 15.92                 | 10.53                 | 13.42                     | 0.00                       | 8.14                    | 8.14                     | 57.00                   |                         | 8.92                   | 91.59          | 100.51           |                       |

Notes **Chile:** Excludes PEF, PSL, TCR, PDL and MIF.  
**Bank:** Excludes (in addition to Chile exclusions) PBL and EME.

**Figure 1: Performance issues of Chile’s portfolio execution related to fiduciary and safeguard aspects (Based on information from PPMR)**



**Figure 2: Performance issues of Bank’s portfolio execution related to fiduciary and safeguard aspects (Based on information from PPMR)**

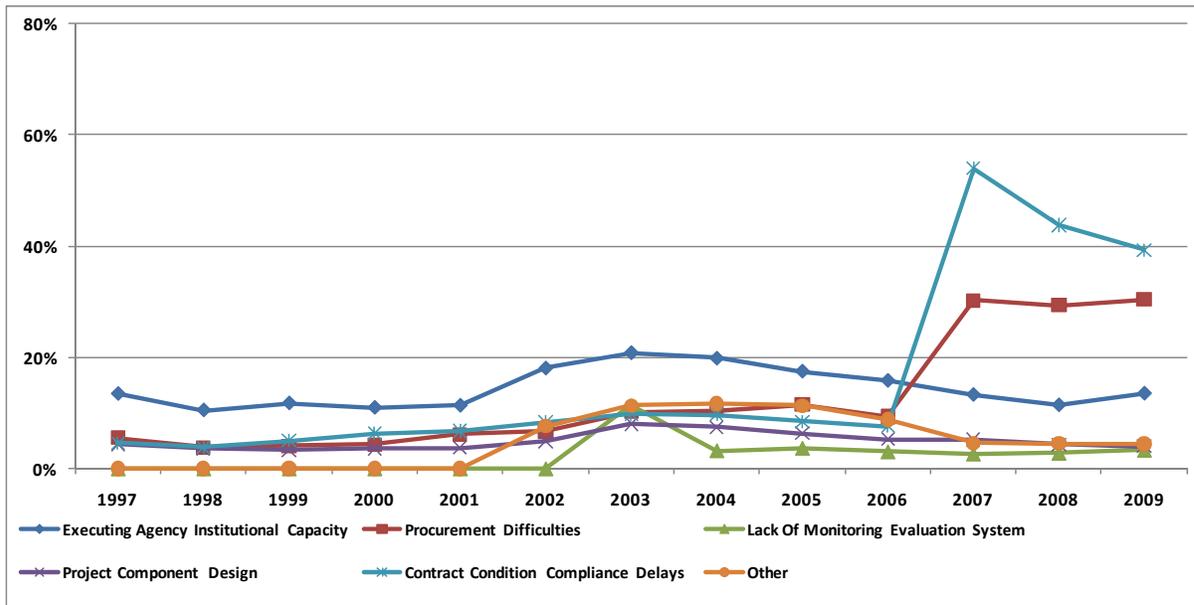


Figure 3

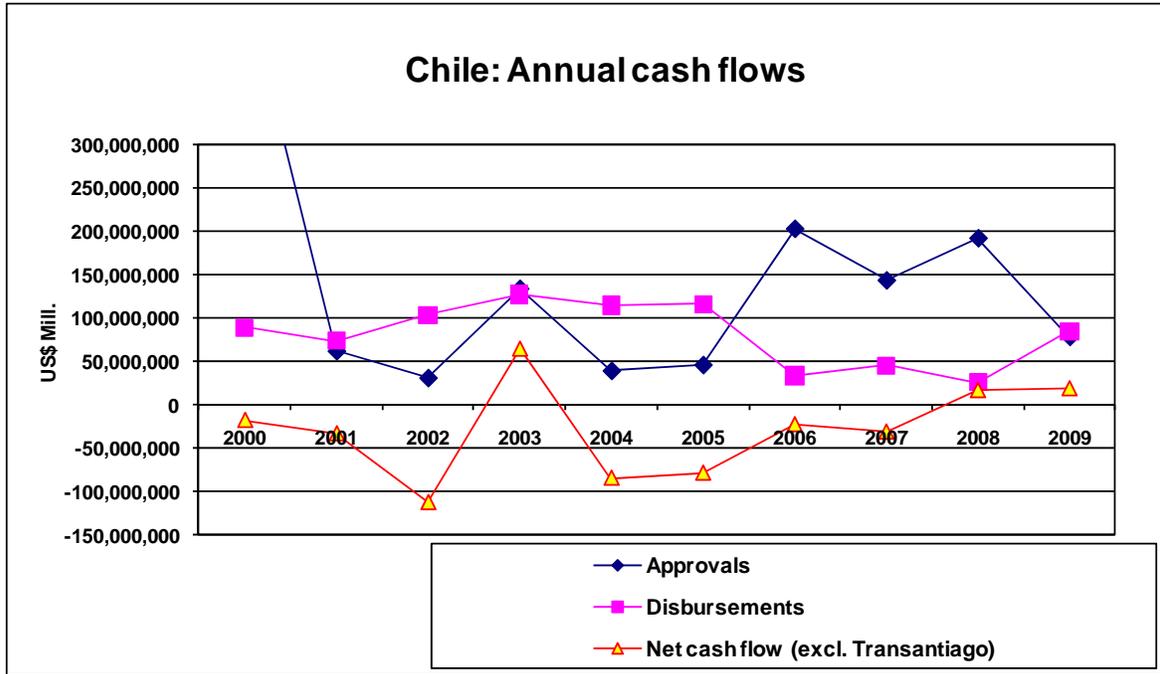
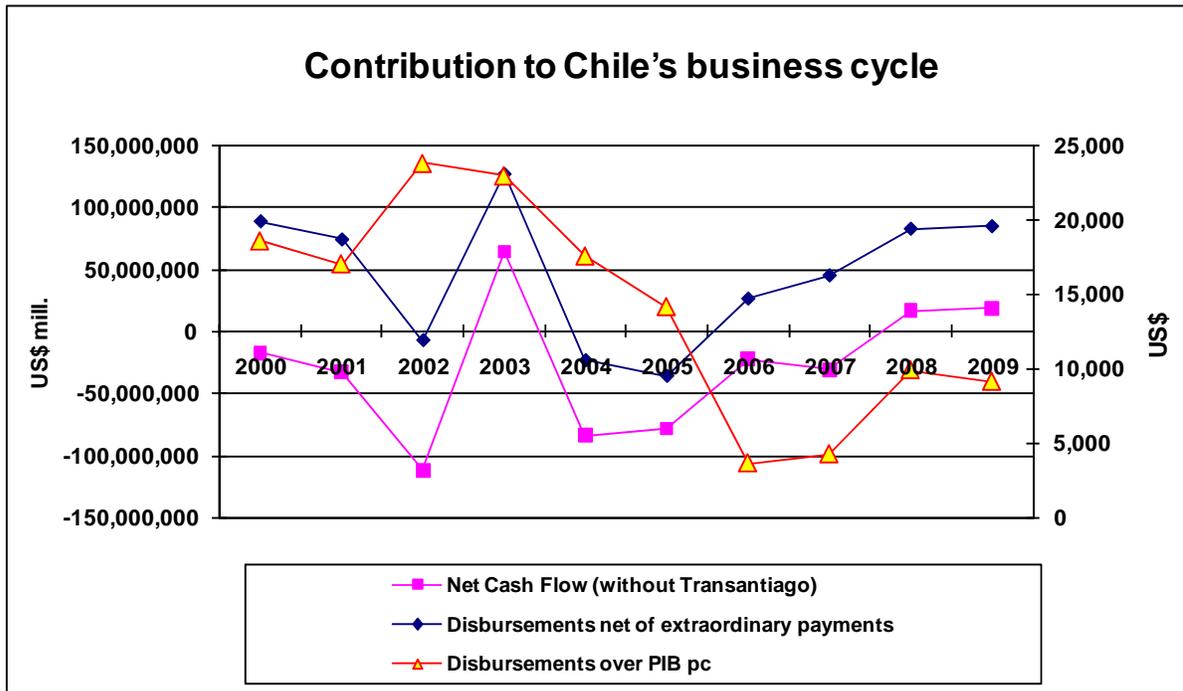


Figure 4



**Table 6: Chile. Effectiveness of the program implementation model**

|  |  |  |   |  |
|--|--|--|---|--|
| <b>A. Ownership by the country: partners set the agenda</b>  | 1. Partners have operational development strategic programs that include Bank loans  |  | (a) dummy   | <b>94%</b>   |
|  | <b>B. Alignment with country strategy, systems and procedures, reducing transactional costs</b>                            | 2. Reliability on country systems (from diagnosis) for effective execution of Bank-financed operations and adherence to international standards and best practices | Fiduciary   | (b) Procurement                                      |
|  |  |  | (c) Public Financial Management   | <b>100%</b>  |
|  |  | (d) External Control (Auditing)  | <b>100%</b>   |  |
| Nonfiduciary   |  | (e) Development effectiveness of the Program   | <b>100%</b>   |  |
|  |  | (f) Environmental assessments 1/   | <b>100%</b>   |  |
|  |  | (g) Statistical systems  | <b>100%</b>   |  |
| 3. Aid flows are aligned on national priorities  |  | (h) % of flows from loans included in the national budget or paid by national treasury systems   | <b>100%</b>   |  |
| 4. Strengthen capacity by coordinated support  |  | (i) % of Bank development support consistent with partners' national strategies  | <b>94%</b>  |  |
| 5. Use of country fiduciary and nonfiduciary systems by projects on necessary actions to be followed when minimum technical standards are not met                |  | (j) % of flows monitored by national accounting and reporting systems  | <b>100%</b>   |  |
|  |  | (k) % of financial flows of contracts made by national systems   | <b>0%</b>   |  |
|  |  | (l) % loans subject to auditing by national systems  | <b>99%</b>  |  |
|  |  | (m) % of loans subject to national environmental systems   | <b>79%</b>  |  |
|  |  | (n) % of loans subject to national procurement systems   | <b>99%</b>  |  |
| 6. Strengthen capacity by avoiding parallel structures implementation unit (PIU)   |  | (p) dummy - % of loans with project implementation unit (PIU)  | <b>18%</b>  |  |
| 7. Aid is more predictable   |  | (q) % of aid disbursements released according to agreed plan   | <b>44%</b>  |  |
| 8. Aid is untied: % of aid that is untied (unconditional)  |  | (r) % of aid that is untied  | <b>100%</b>   |  |
| <b>C. Harmonization: donors implement common arrangements and simplify procedures to push for greater alignment</b>  | 9. Use of common arrangements  |  | (s) % of aid provided as program-based approaches   | <b>83%</b>   |
|  | 10. Encourage shared analysis (in number of products)  | Missions   | (t) % of field missions, by type and year   | --   |
|  |  | Analytical work (PRG, NFP, TC and other knowledge studies), including diagnostic reviews that are joint or coordinated to innovate or develop interventions        | (u1) input-output ratio   | <b>2.2</b>   |
|  |  |  | (u2) knowledge density ratio  | <b>7.9</b>   |
|  |  |  | (u3) nonreimbursable/reimbursable products ratio  | <b>9.6</b>   |
|  | (u4) knowledge products composition (knowledge products related to CS/total knowledge products)                            | <b>68%</b>   |   |  |
| <b>D. Managing for results: means managing and implementing aid in a way that focuses on the desired results and uses information to improve decision-making</b> | 11. Results-oriented frameworks: monitor progress against key dimensions of the national and sector development strategies |  | (v) % of progress demonstrability of the projects in monitoring reports (outputs and outcomes) regarding (a) targets or (b) baseline established ( <b>Project Evaluability Index</b> )    | (a) <b>60%</b><br>(b) <b>71%</b><br><b>Total 60%</b> |
|  |  |  | (w) % of progress demonstrability of the Country Strategy in monitoring reports (outputs and outcomes) regarding (a) targets or (b) baseline established ( <b>CS Evaluability Index</b> ) | (a) <b>31%</b><br>(b) <b>24%</b><br><b>Total 31%</b> |
|  |  |  | (x) % of public services with Bank loans where their performance is reported by National Evaluation Systems   | <b>15%</b>   |

1/ See in Annex to Chapter III the Matrix of Loans Portfolio Reviewed and Use of National Systems.

**Table 7: Risk management of the program products**

|                                    |                                   |  |            |
|------------------------------------|-----------------------------------|--|------------|
| <b>Risk Management of Projects</b> | <b>Risk Management Indicators</b> | (a) % of risks identified at approval (with mitigation actions identified)           | <b>52%</b> |
|                                    |                                   | (b) dummy loans where internal and external risks are distinguished                  | <b>0%</b>  |
|                                    |                                   | (c) % of risks occurred to date (progress reported in PPMR/PCR, mitigation reported) | <b>43%</b> |
|                                    |                                   | (d) % of unidentified at approval risks that occurred to date                        | <b>34%</b> |
|                                    |                                   | (e) % of unidentified risks that occurred to date                                    | <b>20%</b> |

Figure 5

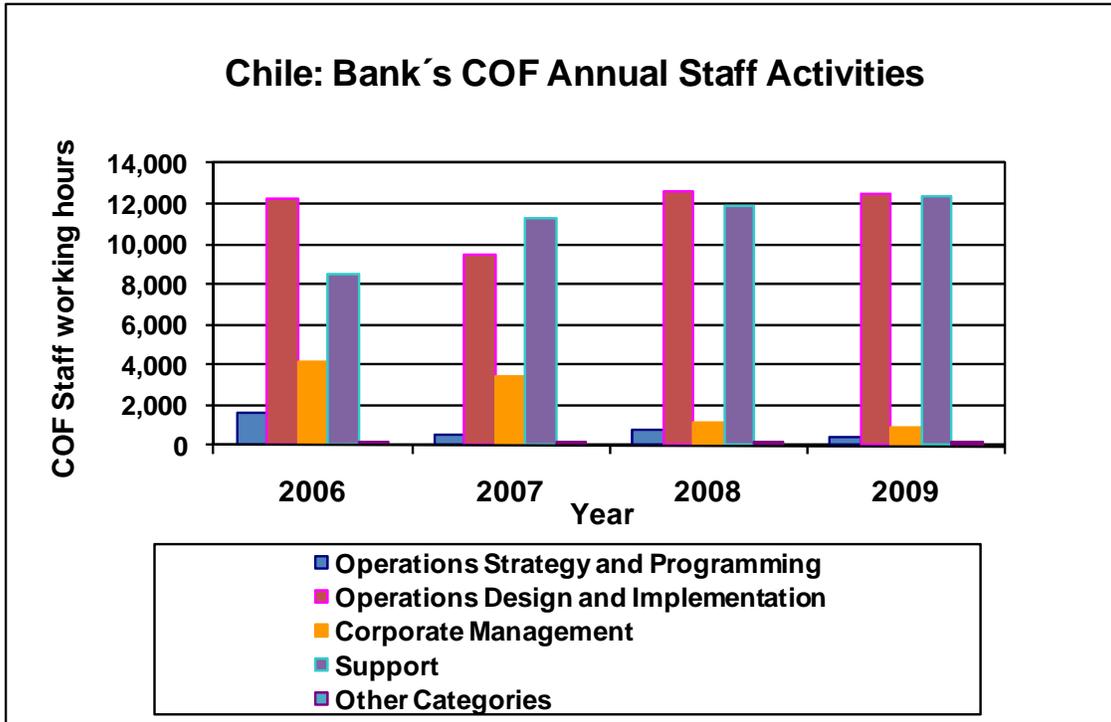


Figure 6

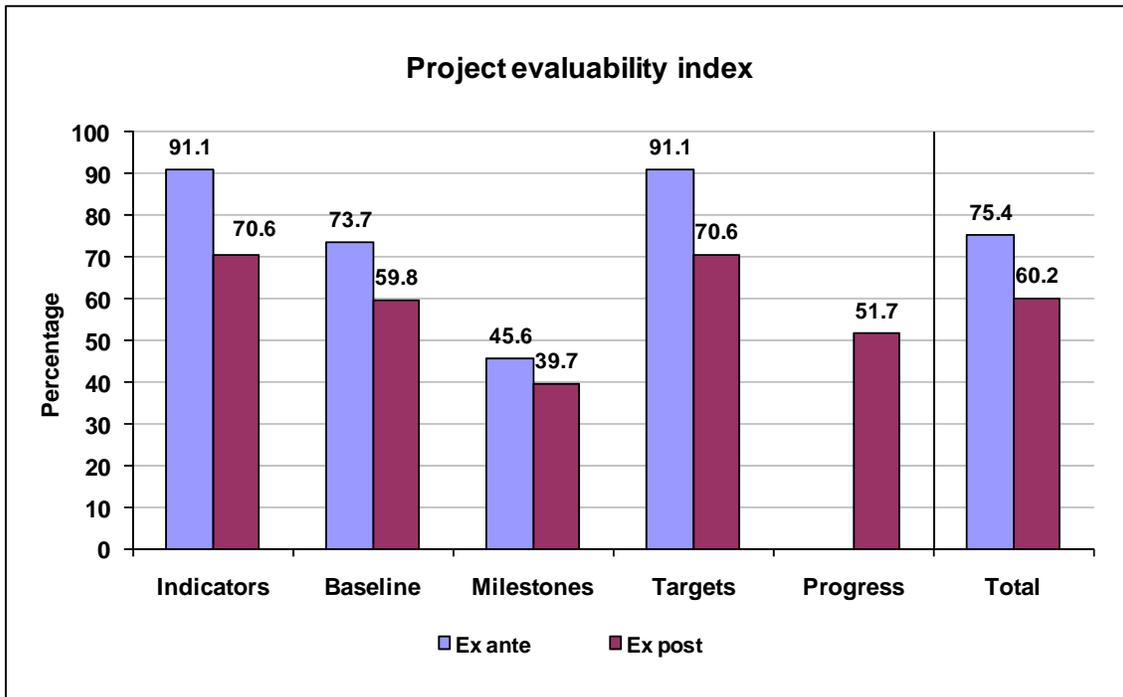


Figure 7

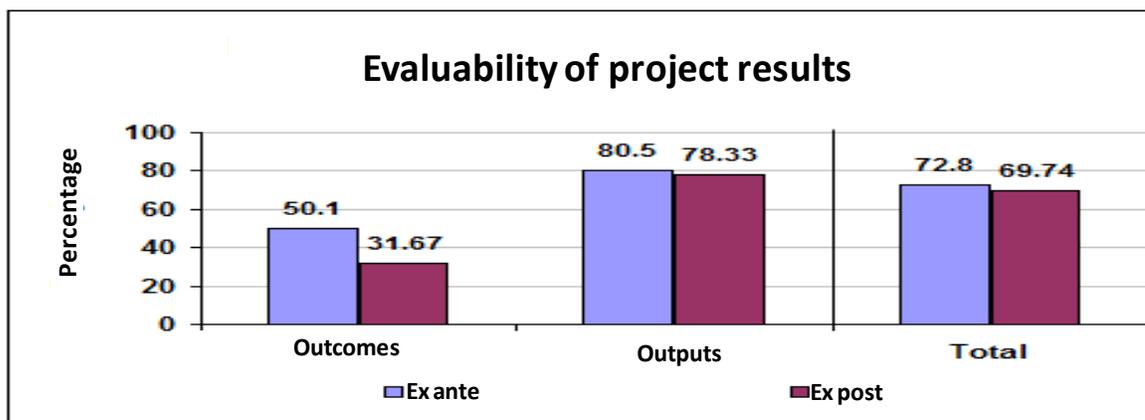


Table 8: Chile. Change index (in %) \*

|                                | Loan documents (LDs) (number) | Added in PPMRs (number) | Eliminated in PPMRs (number) | Change index (%) |
|--------------------------------|-------------------------------|-------------------------|------------------------------|------------------|
| <b>Development objectives:</b> | 6                             | 0                       | 2                            | <b>67%</b>       |
| <b>Purposes:</b>               | 4                             | 0                       | 0                            | <b>100%</b>      |
| <b>Outputs:</b>                | 27                            | 1                       | 0                            | <b>104%</b>      |
| <b>Indicators:</b>             | 76                            | 1                       | 24                           | <b>70%</b>       |
| <b>Baseline:</b>               | 63                            | 3                       | 18                           | <b>76%</b>       |
| <b>Milestones:</b>             | 27                            | 0                       | 5                            | <b>81%</b>       |
| <b>Targets:</b>                | 76                            | 1                       | 24                           | <b>70%</b>       |

(\*) Change index = (Indicators in LDs + Indicators added in PPMRs – Indicators eliminated in PPMRs) / Indicators in LDs

Table 9: Chile. Progress monitoring index (in %) \*

|                 | Goal/Overall objective | Purposes/ Specific objectives | Products** | Total |
|-----------------|------------------------|-------------------------------|------------|-------|
| <b>Average:</b> | 0.0%                   | 25.0%                         | 71.4%      | 70.4% |

(\*) Percent of indicators for which progress information is provided.

(\*\*) Denotes the relative weight of PDLs in the 2006-2010 approvals total.

## Notes

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- <sup>1</sup> This chapter is an abridgement of the analysis of country context and development challenges done for the CPE. For the full analysis see the annex to chapter I, which includes also the tables and figures referenced in the notes of this summary version.
- <sup>2</sup> See Figure 1 in the Statistical Annex to chapter I.
- <sup>3</sup> See Table 2.
- <sup>4</sup> IMF WEO 04/2010.
- <sup>5</sup> See Tables 3 and 4.
- <sup>6</sup> Measured in PPP-adjusted GDP per capita.
- <sup>7</sup> See Figures 5 to 8.
- <sup>8</sup> See Table 2.
- <sup>9</sup> On average, growth episodes in the region (for LAC-9 excluding Chile) following the debt crisis lasted 4.1 years, and in no case did per capita GDP grow for more than six consecutive years. Virtually all the countries experienced two crisis episodes over that period. Only once in the past 25 years (1999) did Chile record negative growth. In 1983-2008 the region average was seven years of growth declines, with an average annual drop of 5.7% per episode.
- <sup>10</sup> D. Rodrik (2005), "Growth Strategies."
- <sup>11</sup> See Table 2.
- <sup>12</sup> See Figure 10.
- <sup>13</sup> See Figure 11.
- <sup>14</sup> See Figure 12.
- <sup>15</sup> See Figure 13.
- <sup>16</sup> See Figure 14.
- <sup>17</sup> In 2005 the country posted a budget surplus of 4.6% of GDP; central government net debt was 6.5% of GDP and the Economic and Social Stabilization Fund (FEES) had amassed close to US\$1 billion. Budget surpluses in 2006-2008 averaged 7.2% of GDP, the gross debt stock was down to 5.2% of GDP, and FEES holdings jumped to US\$20.2 billion. In 2009, even though the international financial crisis hurt Chile's economy and fiscal revenues, the government not only maintained public spending levels but was able to increase them. The rise in expenditure was funded not with new debt but with the monies built up in the FEES, which at end-2009 stood at US\$11.3 billion.
- <sup>18</sup> On a par only with Bolivia, Brazil, Paraguay, and the Central American economies.
- <sup>19</sup> See Figure 12.
- <sup>20</sup> Particularly in the past ten years.
- <sup>21</sup> By acting on the virtuous link between productivity, employability, and economic development, creating quality jobs that maintain wage levels and make wage increases possible and, in the process, enhancing employability by protecting workers and their families from unemployment and economic uncertainty, targeting excluded population segments and locations with non-functioning markets.
- <sup>22</sup> Note that, while there are differences in the GFCF-GDP ratio between the series at constant and current prices, the averages across the three periods are very close and the comparison holds.
- <sup>23</sup> See Figure 13.

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- <sup>24</sup> See figure showing GDP, Potential GDP and Productivity on page 15 of the annex to chapter I.
- <sup>25</sup> Measured as the Solow residual.
- <sup>26</sup> For an elaboration of the interpretations see the annex to chapter I.
- <sup>27</sup> See Figure 22.
- <sup>28</sup> See Figure 23.
- <sup>29</sup> In 2009 close to 70% of Chile's exports were primary commodities and over 20% were processed commodities.
- <sup>30</sup> "Knowledge production, dissemination, and exchange have very particular rules, often differing from the rules operating in the goods and services market." Eyzaguirre, 24 January 2007, during the presentation of the innovation strategy "white paper."
- <sup>31</sup> See the annex to chapter IV.
- <sup>32</sup> Dante Contreras, based on the University of Chile's Employment and Unemployment Survey; see "Distribución del Ingreso en Chile. Nuevos Hechos y Algunos Mitos," 1999.
- <sup>33</sup> Andrés Solimano and Aristides Torche (2007) found regional Gini variability to be four times greater than country Gini variability, reinforcing the idea that aggregate stability masks important region-level changes. See "Distribución del Ingreso en Chile, 1987-2003. Análisis y Consideraciones de Políticas." A cross-region comparison reveals clear disparities: in 2007 Araucanía's PPP-adjusted GDP per capita was less than one fifth of Antofagasta's and less than one third of the national average.
- <sup>34</sup> A phenomenon observed in many other countries.
- <sup>35</sup> See the annex to chapter II; for details see the table "Political Economy of the Country Strategy—The Bank's Value Added."
- <sup>36</sup> Though not repayment risks, obviously.
- <sup>37</sup> Operations with the Bank are planned and approved in the context of authorized budget programs. The latter are framed by reference to the long-range logic established in the government's strategy priorities for the coming four years, an agenda produced by DIPRES and approved by the President at the start of the administration's term. By virtue of that responsibility DIPRES is involved in loan agreement development, objectives setting, selection of participating institutions and associated budget organization, compliance with national legislation, and ascertaining new legislation requirements. The Chilean Congress, for its part, will only discuss proposals to add projects to budgets if there is a financial report projecting expenditure requirements over time, based on the strategic agenda to be delivered over the administration's term. The legislature likewise has been monitoring approved government programs for the past 10 years; currently this exercise entails selecting 20 of the programs added to the budget each year.
- <sup>38</sup> And which reduced the public debt from 45% of GDP in 1990 to 6% at this writing.
- <sup>39</sup> National Council on Innovation for Competitiveness (CNIC).
- <sup>40</sup> See Chile Country Strategy Matrix, 2006-2010, in the annex to chapter II.
- <sup>41</sup> See the discussion of CS evaluability later in this report.
- <sup>42</sup> The fourth CS development challenge focused on several of these aspects, with the aim of making the processes faster and more flexible.
- <sup>43</sup> Incorporating organizational best practices criteria and new principles that can magnify the efficiency and effectiveness impact of a small-budget program.
- <sup>44</sup> Though the social sector was the prime action focus.

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- <sup>45</sup> The project effectiveness analysis is presented in chapter IV with further details in the annex to that chapter. Results in terms of alignment to Program goals are summarized at the end of chapter IV.
- <sup>46</sup> The anticipation rate is the proportion of approved programmed projects to total programmed projects (approved and not approved), by amount and number of projects.
- <sup>47</sup> As discussed in chapter IV, there were two projects that continued executing but no evidence that their implementation was a priority: Valparaíso Urban Rehabilitation and Development Program (CH-L1004) and Strengthening of the Digital Strategy (CH-L1001).
- <sup>48</sup> The improvisation index is the proportion of unprogrammed project approvals to total approvals (programmed and not programmed), by amount and number of projects.
- <sup>49</sup> Only 2% in amount terms and 8% by number of projects had not been proposed in the CS. The finding holds whether or not the previous strategy cycle approvals are considered. US\$137.7 million of the programmed loan approvals were from 2002-2005 loans that were still executing at the start of the 2006-2010 period; new approvals accounted for \$614.7 million.
- <sup>50</sup> Mostly the result of the US\$400 million Transantiago project that was cancelled in its entirety in the review period. In December 2009 the government returned the loan disbursements to the Bank.
- <sup>51</sup> Not counting the Transantiago project.
- <sup>52</sup> In the 2006-February 2010 span, 52 operations totaling US\$11.7 million, up from 29 operations totaling US\$5.6 million in 2000-2005.
- <sup>53</sup> See the annex to chapter III.
- <sup>54</sup> Beyond the fact that the disbursement logic of the lending products differed in the two periods (PDLs and CCLIPs having predominated in 2006-February 2010), paragraph 3.11 discusses some of the reasons for the low disbursements. Chapter IV provides further details on these projects.
- <sup>55</sup> Including the loans approved by the Bank in December 2009 and January 2010 that are awaiting country ratification.
- <sup>56</sup> See section A.1. of this chapter.
- <sup>57</sup> In the Bank's financial reports current expenditures are an investment category; in contrast to the country's systems the Bank uses cash-based rather than accrual accounting, in U.S. dollars rather than local currency, and does not recognize Chilean budget accounting expenditure line items.
- <sup>58</sup> The most contentious issues are procurement related, dealing with questions of shortlists, international advertising, and currency of payment because of the exchange-rate risk of using depreciated currency.
- <sup>59</sup> For example, the management of PDL advances on hand which, if not expended, attract scrutiny from the Comptroller General's Office.
- <sup>60</sup> Only the judicial branch's and legislative branch's projects still are using Bank systems because of their statutory independence. See the table "Portfolio Review and Use of Country Systems" in the annex to chapter III.
- <sup>61</sup> See indicator 7 of the matrix "Effectiveness of the Program Implementation Model."
- <sup>62</sup> See chapter IV and the annex to that chapter.
- <sup>63</sup> Basically the PDL components of CCLIP CH-X1001.
- <sup>64</sup> Specifically, loans for the following projects: Valparaíso Urban Rehabilitation and Development (CH-L1004), Strengthening of the Digital Strategy (CH-L1001, and DIRECON Institutional Strengthening (CH-L1009).

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- <sup>65</sup> According to the data examined, 2006 marked a turning point in this respect for Chile and across the Bank as a result of changes made to the contract clause system: clauses henceforward would be recorded electronically and the previous practice whereby the specialists could readily clear contract clause compliance was ended. In 2008, as part of the Bank's realignment, the system was revised again to give the project team leader, rather than the Country Office, authority to approve contract clause fulfillment.
- <sup>66</sup> The indicators described in the text were developed to that end, to approximate a measure of that value.
- <sup>67</sup> The Paris Declaration on Aid Effectiveness (OECD DAC, Paris, March 2005) and B. Wood, D. Kabell, F. Sagasti, and N. Muwanga, *Synthesis Report on the First Phase of the Evaluation of the Implementation of the Paris Declaration* (Copenhagen, July 2008).
- <sup>68</sup> To gauge implementation performance in this dimension we used the indicators used in the analysis of CS evaluability and project evaluability in chapters II and IV, respectively.
- <sup>69</sup> Chile Country Strategy Evaluation (CPE), 1995-2005, OVE, IDB, RE-320.
- <sup>70</sup> See the annex to chapter III.
- <sup>71</sup> For the CCLIP sector investments, for example.
- <sup>72</sup> For details see the "Strategic Use of Bank Products" matrix in the annex to chapter III.
- <sup>73</sup> See the CPE's CS and project evaluability sections.
- <sup>74</sup> See the table "Chile: Bank Country Office's Staff Activities (in working hours)" in the annex to chapter III.
- <sup>75</sup> See the COF activities table in the annex to chapter III.
- <sup>76</sup> For a further breakdown see the table in the annex to chapter III, "Chile: Bank Country Office's Staff Activities, in working hours." According to this table, staff time spent on support activities all but doubled from 2006 to 2009; administrative support time climbed from 2,000 to 8,312 person-hours.
- <sup>77</sup> A separate OVE product assesses IIC performance specifically.
- <sup>78</sup> See the annex to chapter IV.
- <sup>79</sup> The ex ante evaluability index is a summary indicator used to calculate whether metrics—indicators and associated baseline, milestones to measure progress, and the indicators' anticipated targets at exit—are provided in projects' result matrices for each strategy result (development objectives and purposes) and for each product selected to deliver those results. This index encapsulates the information using a binary classification that ascribes a value between 0 (not evaluable) and 1 (fully evaluable) and is calculated as the quotient of the sum of non-0 cells and the sum of all cells defined for all outcome and output rows. The ex post evaluability index is calculated in the same way but a "Progress" column is added to report whether in-process outcome and output monitoring is (1) or is not (0) done.
- <sup>80</sup> The change index is defined as the number of indicators in loan project documents (LDs) plus the number of indicators added when operations are executing (in PPMRs or PCRs) less the number of indicators eliminated (in PPMRs or PCRs), as a proportion of LD indicators.
- <sup>81</sup> Percent of indicators whose implementation progress is measured.
- <sup>82</sup> The figure presents the metrics of the contribution to overall evaluability (including the private-sector projects) of output and outcome demonstrability (development objectives plus goals).
- <sup>83</sup> See chapter I, section A.

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- <sup>84</sup> Education gaps are constraining social equity enhancement. The inequity lies in education quality, particularly at the secondary school level, affecting the most disadvantaged population segments. Chile has achieved impressive increases in enrollment ratios up to the secondary level. The problems are being passed down from generation to generation. Though Chile is the best positioned country in the region it still lags OECD figures at a distance, especially for completed years of schooling and youth competencies. Half of new job market entrants do not have the necessary reading skills and other four core competencies.
- <sup>85</sup> Notably the operations to strengthen decentralization policies and investment actions to reduce regional and urban economic and social disparities, in several of the goals to address the CS third challenge (see section c. below).
- <sup>86</sup> Though it formed part of another CS component, the results of the CCLIP (CH-X1001) sector investments are noteworthy for their contribution to these goals. They helped the country pursue the same aim of universal access to essential services for residents of regions where disparities were severe.
- <sup>87</sup> For example the CCLIP CH-X1001.
- <sup>88</sup> One facet of this policy was the creation of the Presidential Advisory Council on Child and Family Policy, with the aim of improving education quality and enacting a national child policy. The Council reviewed Chilean child policy and produced a report proposing a set of guidelines and action focuses to improve child policies and programs. At the heart of the priorities was the transition to a model featuring much more stringent control over education quality on the part of public agencies and setting minimum standards to be able to catch up to the advanced nations.
- <sup>89</sup> The core purpose of enhancing preschool education is to help prepare more young children for the demands of the first cycle of basic education, which at the moment are near-insuperable and determine children's subsequent learning performance. To fix the current disparities in caliber of human capital, education would have to begin much earlier. Working women and the low female workforce participation rate are associated concerns: universal access to pre-kindergarten and kindergarten will be a help but only a partial one as long as those are half-day programs.
- <sup>90</sup> On female workforce participation and preschool education for children of mothers entering the labor force.
- <sup>91</sup> This was another operation whose approval was held up considerably by the Transantiago project fallout.
- <sup>92</sup> The Presidential Advisory Councils are ad hoc committees appointed by the President to review and address public policy issues. The assembled experts and respected practitioners, who serve ad honorem, work with community actors to quickly come up with proposals that are sent directly to the President. The Councils typically have strong support teams of advisors, academics, and international organizations.
- <sup>93</sup> The project had proposed to lower the risks by direct contracting of a consulting firm that had proven experience with the technology planned for the project (Sinapsis) but was very expensive.
- <sup>94</sup> Its project performance delivery standards helped in this process. The Bank adapted its procedures to afford more flexibility, expediting the outside contracting consistent with budget-line provisions and timelines.
- <sup>95</sup> A suitable vehicle had to be found to serve 600,000 clients countrywide in a short space of time.
- <sup>96</sup> The project advocated a centralized service model using 50 payment points.
- <sup>97</sup> Operation CH-L1024 was supported by technical-cooperation operation CH-T1039 which contributed expertise for the social security system institutions, particularly the Instituto de Seguridad Laboral [Workers Compensation Administration] (ISL) that came out of the reform, and to assess institutional risks of establishing that agency.
- <sup>98</sup> This Council proposed wage subsidies, a revamping of the unemployment allowance, adoption of the concept of employability (over welfarism) in the social protection system, and a labor relations survey. Those proposals moved the focus away from a minimum-wage increase to minimum household income.
- <sup>99</sup> See chapter I and Annex IV.

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- <sup>100</sup> The agency's mandate is to advise the government on innovation and competitiveness policy identification and development in fields such as science, human resources development, and technology development, transfer, and diffusion.
- <sup>101</sup> The rationale for creating ARDPs was that a bottom-up model better addresses the strategic development planning needs of the support recipients in the region. Working out of the regions these agencies could chart a more consistent and better coordinated cross-cutting development agenda to promote startup clusters, with mass incorporation of MSMEs. Enhancing of the regions' capacity to deliver these new responsibilities was the change instrument used to get all the existing sector and development agencies to dialogue, to tackle the issue of productivity as a synergistic venture within each cluster, marshaling public and private actors behind a region- and governance-driven strategic development agenda.
- <sup>102</sup> This observation holds for the other development challenges mapped out in the CS.
- <sup>103</sup> One of President Bachelet's pledges for the first 100 days of her administration.
- <sup>104</sup> To construct such spaces, national and regional agency offerings had to be more closely aligned to the demands of globalization and a new incentives architecture was needed to fix the failures that were blocking the innovation and production diversification required as trade expands under free-trade agreements.
- <sup>105</sup> DIRECON, CH-L1009; Tourism Development Program, CH-L1023; and Program to Strengthen CONAF's Management Capacity, CH-L1021.
- <sup>106</sup> "Strengthening Institutional Capacities for Innovation Policy Design and Implementation in Chile. Assessment and Proposals." OECD-IDB; March 2010.
- <sup>107</sup> Since 2006, at the country's invitation, the OECD has been helping to monitor innovation and regional development policy design and delivery. The OECD's 2007 "Review of Innovation Policy – Chile," updated in 2009 for the CNIC, and its 2009 "Territorial Review of Chile" indicate the importance of its innovation and regional development knowledge and proposals.
- <sup>108</sup> The plan is to create a new agency—the Regional Innovation Council—in each region to head up strategic innovation planning. The bill also envisages Regional Councils for Innovation and Competitiveness in each region to advise the regional governments and help with the national-level pursuit (CNIC) of the regional innovation strategy.
- <sup>109</sup> For a further discussion see paragraphs 81 to 97 of the OECD-IDB document.
- <sup>110</sup> To enhance access to market information and run business "matchmaking" events.
- <sup>111</sup> Regional multisector "macro business rounds" taking in large geographic areas; large firms coaching small ones to quickly transfer external market knowledge to smaller firms that cannot acquire this on their own; and helping small and medium-sized high-tech companies go global.
- <sup>112</sup> As of July 2009, 38 SMEs had received business coaching and 235 had taken part in macro business rounds. Fifty-three companies are currently receiving business coaching and 600-plus have taken part in macro business rounds along with commercial attachés from 60 offices in 42 countries.
- <sup>113</sup> For instance, because of its discrete project focus the Bank did not leverage the synergies of having work programs operating at the national level (CNIC), the regional level with CORFO and SUBDERE, and the sector level (tourism, national heritage, DIRECON [ProChile], and CONAF). The projects were not treated as connected ventures that could benefit from cross-synergies. Fortunately the collective logic of the participating national agencies and the strategic logic of DIPRES—mature agencies with more experience to manage these issues—realigned some of the interventions toward a delivery logic. Inevitably this took more time and resources than originally planned for these agencies' activities and could not elude the exogenous risks created by the Transantiago project issues on the Bank's pipeline.

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- <sup>114</sup> For instance, even though it figured in another CS component, the digital agenda priorities shift did not echo the innovation policy priorities. The action focus of the digital strategy project shifted steadily toward e-government and most of the originally planned products were reformulated.
- <sup>115</sup> The idea was that the intervention would “*particularly ... better coordinate Chile’s national innovation system (NIS) and help it operate more efficiently. Such support would focus on the Council and its technical bodies, aiming to turn it into the NIS articulating agent and promoter of policy coordination. It would track and evaluate NIS funds and institutions using a coordinated information system to monitor development instruments and their impact, consolidating current technology prospecting efforts, fostering sector dialogue and analysis forums and arrangements, acting as catalyst to help shape public-private agendas and leading a systematic diffusion effort.*”
- <sup>116</sup> The ARDPs were recently reframed as Regional Production Development Corporations (CRDPs) to give them greater autonomy. Rather than national government agencies they now are attached to the regional governments so they can manage innovation policy from the regions. The private and public sectors will have clear responsibilities for production innovation and development.
- <sup>117</sup> Revisiting the issue of the institutional base for innovation, the CNIC’s recently unveiled 2010-2020 Innovation and Competitiveness Agenda states that “in order to build up regional innovation systems and more closely interface the National Innovation Strategy and the Regional Development Strategies it is essential to build on the experience of the Regional Production Development Agencies (ARDPs) and turn those organizations into strategy agencies that will be the regional counterparts to the CNIC. Moreover, pursuant to the ARDP strategy recommendations, programming agreements (that afford assurances of medium-term financing, supplementing regional resources with national agency funding) should be used to build regional or mesoregional capabilities, particularly for science, technology, and human capital development.”
- <sup>118</sup> There were no other operations approvals to pursue this aim. A technical note was the only product approved to further agricultural development.
- <sup>119</sup> Community-based Tourism Development in Chiloé and Palena, CH-0172.
- <sup>120</sup> ARDPs, CH-L1019; Heritage Preservation Program, CH-L1032 (under the CCLIP); Integral Development Program for Indigenous Peoples, CH-L1014; Valparaíso Urban Rehabilitation and Development, CH-L1004.
- <sup>121</sup> Tourism Development Program, CH-L1023; CONAF Management Capacity Strengthening Program.
- <sup>122</sup> The tie-in between tourism, sustainable national heritage assets development, and competitiveness is obvious, their sustainable interaction being crucial for innovative clustering initiatives.
- <sup>123</sup> On the matter of coordination of projects, note for instance the statement in paragraph 1.30 of the loan document for the Program to Strengthen the Management Capacity of the National Forest Service (CONAF) (CH-L1021) that “*this program will coordinate with the tourism development program (document CH-L1023) to be financed by the Bank and executed by SERNATUR.*” However, little was done in that direction.
- <sup>124</sup> Tourism is a distinct, destination-driven industry sector that operates in specific market segments. It requires a regional approach and local public and private actors with specific characteristics that need assistance to effectively capitalize on their ventures.
- <sup>125</sup> Heritage Preservation Program, Valparaíso Urban Rehabilitation and Development Program, Destination Tourism Program and, generally, the CCLIP sector investment project focuses.
- <sup>126</sup> The rationale for approval of a final component of CCLIP CH-X1001 executed by SUBDERE.

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- <sup>127</sup> This operation's core objective was to address sector service delivery issues that are a priority concern for the government, implementing a policy that would simultaneously close the electric service gap and assure the service's sustainability by means of economic and cultural benefit streams the investments would create. Any shortfall would be made up in the national budget as a permanent expenditure line but making sure a sound institutional base was in place to manage those assets.
- <sup>128</sup> See the annex to chapter IV, section B.
- <sup>129</sup> These projects unfolded against the backdrop of the late 2007-early 2008 energy crisis.
- <sup>130</sup> The three hallmarks of Chile's energy sector are heavy reliance on imported fuels, the large share of the power supply coming from sources that are vulnerable to climate change, and differing economic and power-consumption growth rates.
- <sup>131</sup> The Bank-funded actions and other contributions in this sphere helped instill an understanding that "the country's requirements exceed the institutional capacity of the National Energy Efficiency Program to deliver on them, notwithstanding the evident merits of this program's implementation. IDB and DIPRES evaluations in 2008 recommend building up accountability capacity and structures; internal analyses make a case for segregating policy-making and policy-delivery functions—an approach taken up in the new institutional apparatus designed for the energy sector, in which the Ministry of Energy will make policy and a Chilean Energy Efficiency Agency will deliver energy efficiency plans, programs, instruments, and projects." See "Informe Final: Asesoría para el Diseño de la Agencia Chilena de Eficiencia Energética, Incentivos y Metas," 2009.
- <sup>132</sup> Mainly regional organizations and MSMEs.
- <sup>133</sup> Innovative clustering highlights are the supports to the audiovisual industry, destination tourism, the furniture industry, and agricultural development. The region-focused approvals were the fruit of concerted dialogue backed by regional workshops that made a case for pre-innovation actions. Of special note are the programs to enhance competitiveness in the province of Arauco and the Bio Bio region, build local competitiveness capacity in Islas de Pascuas, and support Ecotourism and Heritage Development in Chañaral and Aysén Region Young Entrepreneurs.
- <sup>134</sup> A single microfinance expansion project was approved in 2008 (CH-M1031) but it has not disbursed.
- <sup>135</sup> See the report "Lecciones Aprendidas del Banco en Chile durante el gobierno de Michelle Bachelet (2006-2009) e Implicancias para una Nueva Estrategia del Banco en el País." Juan Pablo Valenzuela Barros (2010). Mimeo.
- <sup>136</sup> CH-M1002, CH-M1002, CH-M1003, CH-M1004, CH-M1005, CH-M1006, CH-M1015.
- <sup>137</sup> Some serious implementation issues cited for the MIF operations were "executing agencies' problems in meeting the agreed timelines; institutional shortcomings of some executing agencies and their inability to get SME owners on the same page regarding the forward impact of some of these initiatives. Because of these executing agency capacity weaknesses it has been impossible to scale up or replicate the model."
- <sup>138</sup> This initial inequality had to do with: (i) unequal human capital distribution; (ii) equity gaps for universal access to basic services in the regions; and (iii) opportunity gaps for regional economic development. A lack of confidence in the technical and institutional capabilities of the subnational actors to efficiently manage resources to boost productivity and enhance equity was one of the main reasons why Bank project support was sought to address this challenge.
- <sup>139</sup> The aim of the first loan under this CCLIP was to strengthen the national government bureau (SUBDERE) charged with building modern governance capacity in the regional governments. The other CCLIP projects funded with the sector-specific investment funding allotments to the regions sought to reduce some of the disparities identified in the Rural Sanitation (CH-L1025), Integrated Solid Waste Management (CH-L1026), Heritage Preservation (CH-L1032), and Bicentennial Cities (CH-L1033) programs.

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- <sup>140</sup> A review of the last 10 years shows ongoing work to support regional development investment and, more recently, urban transport investment.
- <sup>141</sup> The idea behind the ARDPs was to create regional public-private councils with a mandate to explore private productive ventures in each region, to revitalize the strategic cluster market as a way of pulling up the smallest clusters and creating the requisite economic density and human capital formation, and to chart infrastructure investment priorities for the Chilean Regional Development Fund. The Chilean Development Corporation (CORFO) was chosen to heighten the profile of region-specific development; this marked a departure from its traditional work focus on individual projects. The findings show that no new non-natural-resources development pillars were discovered.
- <sup>142</sup> The OECD is producing diagnostic assessments of Chilean regional development and decentralization issues (see OECD Economic Surveys 2007: Chile), and now also is proposing ways to address the issues that have arisen as that agenda is pursued and the conflicts that came out of its tie-in to the innovation strategy (see OECD Economic Surveys 2007: Chile). The main message emerging from the OECD study is the pronounced opportunity gap across the regions: only three regions are contributing to sustained growth.
- <sup>143</sup> The shift in investment logic in this operation from the past approach (Chilean Regional Development Fund—FNDR) operates as an innovation incubator. If the initiatives work and are sustainable they are given permanent budget lines and thus long-run fiscal space. The FNDR was funded by unrestricted central government transfers via SUBDERE, which distributed the money based on a primarily population- and wealth-based formula, and by specific provisions for new investment opportunities, virtually all of them with the Bank.
- <sup>144</sup> The subsidies are supply-side (in investment outlays for the service) and demand-side (co-payment of consumption of the vulnerable population identified by the Chile Solidario Program socioeconomic assessment form, with direct payment to the utility company for up to 10 cubic meters).
- <sup>145</sup> For the Bank the cost estimates are accurate, though they are a subject of discussion in the country.
- <sup>146</sup> The largest expenditures are slated for year three onward. This explains in part why only 20% of the project funds have been disbursed.
- <sup>147</sup> Another factor behind the delays was inexperience with the methodology of a management model for each investment, which meant that specialists had to be hired in each region. Compounding factors were leadership problems to deliver the initiatives, human resources shortcomings, and local financial management problems. The project helped generate a database of heritage management professionals, though not all disciplines are covered. The impact of the crisis on local finances required funds to be redirected, which lowered the priority of some of the program's initiatives and jeopardized delivery of its targets.
- <sup>148</sup> The use of the performance-driven lending product was fully warranted by the transactional advantages it affords for project implementation, but the impacts of technical and organizational capabilities too weak to deliver the targets justifying the disbursements were not duly anticipated. Correctly anticipating these aspects is as important as the transactional benefits.
- <sup>149</sup> The idea was that cities' urban reforms should be self-managed to legitimate the initiative, through strategic partnering of political will, government programs, and civil society.
- <sup>150</sup> The evaluation documents compiled during the evaluation mission are appended to this report.
- <sup>151</sup> A full risk analysis of all the projects examined in this report is attached. The design of a project of this nature should form part of an urban development blueprint legitimated by all stakeholders, and the prime focus of its management model should be sustainability of the support and the proposed components to deliver the desired results. The strategic plan and management model are integral parts of the design and should address results, intervention approaches, and products. And, unless the actors are appropriately capable, it is very difficult to move a project or initiative forward.

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- <sup>152</sup> See chapter II.
- <sup>153</sup> In the words of the Bank program's country counterpart in an interview, "what the government has to do, it should be done as well as possible."
- <sup>154</sup> The challenge pursued with the Bank's business model, to become a knowledge Bank too, creates spaces to scale up its country accountability contribution. Partnerships with other specialized agencies like the OECD, based on complementarity of their relative advantages (as project or service delivery facilitator, because of their flexible product menus to act on specific government priorities, their permanent country presence and their ability to fund development actions and knowledge products) should also prompt a rethinking of knowledge product finance for that purpose.
- <sup>155</sup> In some projects the legal framework in question involved relatively new legislation. Operation CH-L1008 to strengthen the National Civil Service Directorate helped implement Law 19.982; CH-L1024 to strengthen pension management and information systems assisted in implementation of Law 20.255; operation CH-L1012 to strengthen the Judiciary Administrative Corporation involved a law intended to ease certain budget management rigidities.
- <sup>156</sup> No substantiation was found for the interpretation that the country wished to do this on its own or look to another IFI.
- <sup>157</sup> Contributing with performance standards to progress tracking and evaluation in public program delivery.
- <sup>158</sup> Chile's public sector is highly centralized, with a competent managerial central government headed on the strategy and budget sides by the Finance Minister, but institutional capacity is weaker in sectoral/regional government structures. In some cases this disparity complicates efficient interaction in budget program management and ownership. A specialized agency is needed to articulate and bolster those capabilities, particularly to manage challenges of delivering revamped public programs.
- <sup>159</sup> The Senior Government Executive (SGE) System plan was to cut direct senior government appointments by 80% by 2010 and, to begin with, hold competitions to fill some 735 positions in 2004-2010. At this writing about 900 positions have been put out for competition. According to a September 2009 report, 71% of the target had been met, i.e., 642 positions filled or competitions in process. Over half (59%) of the appointees were not the incumbents and 16% come from the private sector. The health sector has made the most use of the SGE system, with 34% of appointments. Compensation has gone up 50%, on average. Today for each position put out to competition there is a performance contract laying out the assigned objectives and performance appraisal rules. Turnover is high: some 300 positions are being put out to competition each year.
- <sup>160</sup> This operation was approved by the Bank but was not ratified by the new DNSC authorities, whose agenda differs from the previous administration's; the technical-cooperation operation thus will be reformulated.
- <sup>161</sup> According to executing unit estimates, 60% of the program's expenditures were permanent expenditures.
- <sup>162</sup> The end-clients (legislators) were not receiving advice to fill in knowledge and experience gaps on public policy negotiation.
- <sup>163</sup> This project indirectly enhanced results in other areas (the digital agenda, through the setup of a public portal; case evaluation preparation based on preset agendas, etc.), as recognized in each case by the initiatives' beneficiaries.
- <sup>164</sup> The value-added lay in: (i) providing a public policy testing mechanism; (ii) shielding the project from the political economy of the budget, which meant a heightened commitment to continuity of a public policy; (iii) partnering with the Bank to share the political risks; and (iv) a mechanism to help give the project legitimacy by "de-politicizing" it.
- <sup>165</sup> By year-end 2006 cumulative disbursements came to US\$3.9 million (a third of the scheduled total); by end-2009 US\$10.6 million of the planned phase-one US\$12.6 million had disbursed.

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- <sup>166</sup> Despite the selected lending product's flexibility for resource management the project did not successfully navigate the government changeover in an operation that involved six coexecuting agencies, which the new administration replaced (with the consequent loss of training in Bank procedures). The Executive Director resigned and the project was without a coordinator for a year. In some cases the new ministers had objectives differing from the original project goals, and some key pillars of the program were dropped (Chile Compras, digital literacy in the schools, SUBDERE) or funding shifts were sought to address the new officials' initiatives.
- <sup>167</sup> These costs refer to an operation structured with one executing agency and six coexecuting agencies, which did not work; centralization of functions at Bank headquarters when an in-country technical counterpart might have expedited execution; certain process rigidities that were not suited to technology solutions that need flexibility and continual trial and error; scant government incentives to take on certain risks; and an overconcern about how the money is spent from an operational and procedural standpoint, considered excessive for a country like Chile.
- <sup>168</sup> Particularly in e-government.
- <sup>169</sup> For instance, development of a new education portal (Educar Chile 2.0) and the interoperability platform for e-government services (PISEE).
- <sup>170</sup> It took a long time to adapt to the new situation on the operating and conceptual sides alike. Some examples of operational constraints were difficulties in managing the problems created by the change in the digital agenda coordinator and problems working with a cross-cutting agenda. On the conceptual side one problem was a lack of strategic rethinking of the agenda contents in light of new administration priorities and work focuses, such as inequality and innovation (issues that the CS had addressed), sticking to ideas for which there was no receptiveness. The main task now is to integrate more agencies into the public IT system interoperability platform and address problems with work coordination and information sharing.
- <sup>171</sup> Initially in the pipeline with priority B, the project has since moved up to priority A.
- <sup>172</sup> For instance, the change in the Bank's procurement policies, changes in project officials and officials not being regularly accessible, slow implementation progress in some areas, lack of suitable penalties for vendor noncompliance, or questions raised by the Bank about the pertinence of certain audits. Another focus of criticism was the logical framework requirement of periodic attainment of milestones as a way to demonstrate progress, something that was not necessarily aligned to the project logic, where there are no observable outputs in the early stages. Requiring milestones has no benefit for the program and raises its transaction costs.
- <sup>173</sup> The June 2009 PPMR reports actual disbursements less than 60% of budgeted disbursements but very good implementation progress. Undisbursed large contract balances explain the difference. The components to strengthen CAPJ strategic management and decentralization (ii) and critical process reengineering (iv) had already achieved their objectives; substantial progress had been made on the other two components but they were not complete. There are insufficient data on the completed activities' results performance to be able to evaluate development objective performance.
- <sup>174</sup> The new system's goals were to shorten passenger wait and travel times, lower vehicle emissions, reduce traffic accidents, and increase transport security. It divided the city into 10 zones that were concessioned out; rapid bus corridors were to be implemented subsequently, with interzone feeder bus services integrated among themselves and with the subway system, to speed up travel and ease congestion.
- <sup>175</sup> The increase in public transit use was immediately reversed, bus frequency problems worsened, and riders turned in droves to the subway system, which thus inherited the problem. The transit system began posting large cash flow deficits that needed subsidies to cover.
- <sup>176</sup> Factoring in efficiency gains.
- <sup>177</sup> Equivalent to the student fare subsidy that other riders had been funding.

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<sup>178</sup> These letters were more of a verbal undertaking by the country than a binding legal document.

<sup>179</sup> Report of the Investigating Committee charged with examining various issues pertaining to the IDB-Transantiago loan and actions of authorities associated with financing of that transit system, March 2009.

<sup>180</sup> See indicators in the annex to chapter IV.

<sup>181</sup> The national budget funds were approved before the approval-ready Bank loans were approved. If and when the new administration ratifies the five loans approved between December 2009 and January 2010 their work programs will have to be updated. This creates a paradoxical situation in which the potential undisbursed loan balance (from approved loans that are awaiting ratification or are substantially undisbursed) equals the lending scenario for the entire country strategy span.