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IDB: COUNTRY STRATEGY WITH CHILE

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ABBREVIATIONS

ACHEE	Agencia Chilena de Eficiencia Energética [Chilean Energy Efficiency Agency]
AECID	Spanish Agency for International Development Cooperation
ARDP	Agencias Regionales de Desarrollo Productivo [Regional Productive Development Agencies]
CFAA	Country Financial Accountability Assessment
CGR	Contraloría General de la República [Office of the Comptroller General]
CONASET	Comisión Nacional de Seguridad de Tránsito [National Transportation Safety Commission]
CONICYT	Comisión Nacional de Investigación Científica y Tecnológica [National Technological and Scientific Research Commission
CORFO	Corporación de Fomento de la Producción [National Development Corporation]
CPAR	Country Procurement Assessment Report
CRDP	Corporaciones Regionales de Desarrollo Productivo [Regional Productive Development Corporations]
DIPRES	Dirección de Presupuestos [Budget Directorate, Ministry of Finance]
ENCC	National Climate Change Strategy
ENUSC	Encuesta Nacional Urbana de Seguridad Ciudadana [National Urban Citizen Security Survey]
FEES	Fondo de Estabilidad Económica y Social [Economic and Social Stability Fund]
GHG	Greenhouse gases
GTZ	*Deutsche Gesellschaft für Technische Zusammenarbeit*
ICTs	Information and communication technologies
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
INAPI	Instituto Nacional de Propiedad Industrial [National Intellectual Property Institute]
INE	Instituto Nacional de Estadísticas [National Statistics Institute]
INT	Integration and Trade Sector
JICA	Japan International Cooperation Agency
KfW	*Kreditanstalt für Wiederaufbau*
MIF	Multilateral Investment Fund
MSMEs	Micro, small, and medium-sized enterprises
NCB	National competitive bidding
NCRE	Nonconventional renewable energy
NRTC	Nonreimbursable technical cooperation
NSG	Non-sovereign guaranteed
OECD	Organisation for Economic Cooperation and Development
OMJ	Opportunities for the Majority Sector
PANCC	National Action Plan on Climate Change
PC	Price comparison
PISEE	Plataforma de Interoperabilidad de Servicios del Estado [State services interoperability platform]

R&D	Research and development
SCF	Structured and Corporate Financing Department
SMEs	Small and medium-sized enterprises
SCF	Structured and Corporate Financing Department
SEGPRES	Secretaría General de la Presidencia [General Secretariat of the Presidency]
SENCE	Servicio Nacional de Capacitación y Empleo [Training and Employment Service]
SG	Sovereign guaranteed
SII	Servicio de Impuestos Internos [Internal Revenue Service]
SITC	Standard Industrial Trade Classification
UME	Unit for Modernization of the State and e-Government
UNCTAD	United Nations Conference on Trade and Development

EXECUTIVE SUMMARY[1]

Context Chile has been characterized by its sound economic performance, having consolidated its macroeconomic policies and its institutions. On 11 March 2010 the government of the *Coalición por el Cambio* ("Coalition for Change") took office, ending a cycle of four successive governments of the *Concertación* that extended over 20 years. The new administration has maintained the basic lines of economic and social policy that had laid the basis for the economy's solid performance and for the progress on social indicators. The main challenges for the country are to boost overall economic productivity and converge towards OECD standards.[2]

The IDB in Chile The IDB is the leading multilateral agency in Chile, accounting for 81% of the country's total multilateral debt. However, the Bank's exposure is low as a proportion of total public sector external debt (3.5%) and as a percentage of GDP (0.3%).

Priority sectors The Bank and country authorities have identified the following strategic areas for cooperation: (i) Labor Market: Equity and Productivity; (ii) Climate Change; (iii) Innovation, Science and Technology; (iv) Public Sector Management; (v) Citizen Security; (vi) Transportation and Road Safety; and (vii) Trade and Integration. At the same time, the private sector windows will be seizing business opportunities in the areas of climate change; transportation and road safety; innovation, science and technology; and trade and integration.

IDB financing Under the proposed financing program, new IDB approvals of sovereign guaranteed (SG) loans for the period 2011-2014 will amount to US$120 million. Gross disbursements for the period should reach US$124 million, with a net capital flow of US$8.3 million.

Use of country systems Chile is continuing to improve its country fiduciary systems to bring them up to international standards and best practices. The latest country assessments (CPAR 2008 and CFAA 2005) show that its public procurement and financial management systems are at a high level of development, its governmental management is sound, and there has been significant progress in terms of transparency and probity, all of which confirms the low level of fiduciary risk in the country and has allowed it to become a full member of the OECD. In this context, greater use of Chile's country procurement system in Bank operations is feasible, as recognized in the conclusions from

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1 The present Country Strategy will be in effect from November 2011 to June 2014.

2 Chile became a full member of the OECD in May 2010.

application of the Guide for Acceptance of the Use of Country Procurement Systems (document GN-2538-6), and it is accordingly recommended that the Board of Executive Directors approve advanced use of that system, as described in document OP-676-1.

Risks in implementing the strategy

The main risks would come from lack of agreement between the key political players, which could prevent adoption of the legislative measures needed under government policy to achieve the proposed objectives and hence implement the strategy; insufficient coordination among the various government agencies involved in the action plans stipulated in the strategy; and a lack of institutional capacity in some State agencies to carry out their newly entrusted tasks.

Coordination with other donors

The Budget Directorate (DIPRES) of the Finance Ministry has the lead role in coordinating the work of international cooperation entities in Chile. The Bank is working in collaboration with the World Bank to develop an updated version of the Government Financial Management System, as well as on the issue of climate change; it is working with JICA on issues relating to the earthquake emergency, with GTZ and KfW on renewable energy, with AECID in the water and sanitation sector, and with the OECD on issues of governance and of innovation and technology.

RESULTS MATRIX

Government Program	IDB Sector	IDB Strategic Objectives	Expected Results of the Strategy	Indicators	Baseline 2009[3]	Indicative Targets to 2014[4]
Combat poverty and excessive inequality and restore the capacity to create jobs	**Labor markets: Equity and productivity**	Improve the functioning of the Chilean labor market	Improve the quality and relevance of publicly funded training programs	Performance management quality standards are used in training programs to certify publicly funded training courses	0% of courses certified. There are no quality standards defined (2011). Source: SENCE	At least 30% of courses are certified according to the standards defined (2014). Source: SENCE.
				A mechanism to ensure training relevance is used to validate the content of publicly funded training activities	0% Source: SENCE.	At least 30% of training activities produce evidence validating their relevance (2014). Source: SENCE.
			Improved labor market regulatory policy	Number of studies or reports reflecting the production and dissemination of best practices, analytic work and/or support for labor regulation diagnostics (output indicator).	0 Source: Ministry of Labor	At least 2 Source: Ministry of Labor

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3 The base year is 2009 and measurement frequency is annual unless indicated otherwise.

4 The indicative targets will be revised or replaced, as appropriate, through the programming documents that will be prepared during the effective period of the country strategy.

Government Program	IDB Sector	IDB Strategic Objectives	Expected Results of the Strategy	Indicators	Baseline 2009[3]	Indicative Targets to 2014[4]
Restore the capacity for economic growth	**Climate change**	Support implementation of the agenda for climate change adaptation and mitigation at the national level (ENCC and PANCC)[5]	Expand knowledge about climate change adaptation and mitigation at the national, local, and sector levels	Number of studies on adaptation [6] and mitigation [7] at the national and subnational and/or sector levels	1 Source: Ministry of Environment	2 Source: Ministry of Environment
			Increased institutional capacity to implement climate change adaptation and mitigation programs	Number of public institutions (ministries and/or sector entities) that include PANCC-specific actions in their annual budget/work plan[8]	0 Source: Ministry of Environment	1 Source: Ministry of Environment
			Strategy or public policy instruments to support development of NCRE for Chile	Number of public policy instruments for promoting NCRE	0 Source: Ministry of Energy	1 Source: Ministry of Energy
			Reduction in greenhouse gas emissions	Capacity for low carbon-content power generation	5,200 MW Source: Ministry of Energy	5,700 MW Source: Ministry of Energy
				Generation capacity with NCRE	2.4% Source: Ministry of Energy	5% Source: Ministry of Energy
				Programs and/or projects implemented for promoting energy efficiency (with budget executed to at least 50%)	3 Source: ACHEE	10 Source: ACHEE

5 National Climate Change Strategy and National Action Plan on Climate Change, respectively.

6 For example, analysis of activities to reduce vulnerability, climate change impact scenarios.

7 For example, nonconventional renewable energy (NCRE) technologies (solar, tidal), marginal abatement cost curves.

8 The executing agencies for the priority lines of action in the PANCC include the Ministry of Environment, Ministry of Energy, Ministry of Mining, Ministry of Health, Ministry of Agriculture, Ministry of Economy, Subsecretariat of Fisheries, National Energy Commission, Meteorological Directorate of Chile, Agricultural Research Institute, and National Commission for Research, Science and Technology.

Government Program	IDB Sector	IDB Strategic Objectives	Expected Results of the Strategy	Indicators	Baseline 2009[3]	Indicative Targets to 2014[4]
	Transport and road safety	Improve the public transit service in Santiago	Reduced travel times on Transantiago	Average travel time on Transantiago	33.5 minutes Source: Ministry of Transport	28.5 (by 2016) Source: Ministry of Transport
		Enhance road safety	Reduced number of traffic accident deaths	Traffic accident deaths per 100,000 residents	13.1 Source: Assessment of road safety in LAC 2009 – Spanish Highway Association and IDB	20% reduction Source: CONASET
	Innovation, Science and Technology	Foster business innovation	Increase in total investment in R&D	R&D investment as % of GDP	0.40 Source: OECD	0.60 Source: OECD
			Increase in scope of promotion instruments	% of enterprises that consider lack of financing an obstacle to innovation	45% Source: INE	30% Source: INE
			Increase in labor productivity in beneficiary firms under Innova–Chile and CONICYT programs through better design and targeting of instruments	Increase in labor productivity in beneficiary firms under Innova–Chile and CONICYT relative to a control group	10% Source: INE	20% Source: INE
		Stiffen the protection of intellectual property	Increased efficiency of INAPI	Average years of backlog in processing patents	5 Source: INAPI	4 Source: INAPI
		Digital development: accessibility and use of ICTs for productivity	Dissemination of ICTs in SMEs	% of small companies with broadband access	68% Source: INE	80% Source: INE
				% of small companies with websites	27% Source: INE	45% Source: INE

Government Program	IDB Sector	IDB Strategic Objectives	Expected Results of the Strategy	Indicators	Baseline 2009[3]	Indicative Targets to 2014[4]
	Public-Sector Management	Improve management in the central government	Increased accountability and citizen participation	Monthly average of visits to the datos.gob.cl portal	0 Source: UME[9]	10,000 (2012) 25,000 (2013) 35,000 (2014) Source: UME
			Improved service to users	Number of monthly transactions in PISEE (annual, as of 2013)	897[10] Source: UME	1,200 (2013) Source: UME
			Improved strategic planning systems at core of government and evidence-based decision-making	Draft law creating the Quality Agency sent to Congress	0 Source: UME	1 (2012) Source: UME
				Percentage of public spending evaluated [11] (annual, as of 2014)	34% (2009) Source: DIPRES	45% (2014) Source: DIPRES
		Improve the instruments for fostering productivity	Improvements in measuring the impact of instruments, including productivity measurements	Number of business development tools that incorporate impact measurement with new methodology	0 Source: CORFO	3 Source: CORFO
		Improve the business climate	Implementation of a new bankruptcy procedure in Chile that shortens the time from filing for bankruptcy to final distribution of assets and liabilities	New law approved and mechanism in place	0 Source: Ministry of Economy	1 Source: Ministry of Economy
	Trade and Integration	Promote and diversify the country's range of exports	Increase the range of exportable offshoring services	Exports of business services	US$850 million Source: International Data Corporation	US$1.763 billion Source: International Data Corporation

9 Unit for Modernization of the State and e-Government, of SEGPRES.

10 Monthly average January-June 2011.

11 Represents the sum of evaluations on the budget for the corresponding year.

Government Program	IDB Sector	IDB Strategic Objectives	Expected Results of the Strategy	Indicators	Baseline 2009[3]	Indicative Targets to 2014[4]
			Diversify exports both by product and by destination	Herfindahl–Hirschman concentration index (SITC rev 3, 3 digits)[12]	0.1602 (2009) Source: INT/INT based on UNCTAD data	0.13 Source: INT/INT based on UNCTAD data
		Facilitation of trade and customs procedures	Reduced times and costs associated with export and import transactions and hence greater efficiency in foreign trade management	Number of days needed to complete import/export transactions	5 days for exports and 6 days for imports Source: IDB-INT	2.5 and 3 days, respectively Source: IDB-INT
	Government Financial Management and Procurement	Adjust and improve the country's public financial management system for use in Bank-financed operations	Use of country financial management systems	% use of internal audit subsystem in Bank-financed operations	0% of portfolio operations using country internal audit subsystem (2011) Source: IDB	50% of portfolio operations use the country internal audit subsystem Source: IDB
		Adjust and improve the country's public procurement system for use in Bank-financed operations	Increase in use of country procurement systems	% of operations using ChileCompra as information system [13]	72% (2011) Source: IDB	100% Source: IDB
				% of portfolio operations using ChileCompra, to procure goods and services via NCB[14]	0% (2011) Source: IDB	100% Source: IDB
				% of portfolio operations using ChileCompra, for works contracting via PC	0% (2011) Source: IDB	100% Source: IDB

[12] The Herfindahl–Hirschman (HH) index represents the sum of the squares of the fractional shares of each good (in this case to three digits) in total exports. A high value indicates a concentrated export base, and a low value indicates a diversified export base. As the values used to calculate shares are nominal, the HH index is sensitive to price fluctuations. In particular, in the case of raw-material exporting countries, the index goes up when the price of those goods rises.

[13] The information system used is the publicity module of the Chilecompra electronic system.

[14] NCB is national competitive bidding, for amounts below US$350,000; PC is price comparison, for amounts below US$350,000.

Government Program	IDB Sector	IDB Strategic Objectives	Expected Results of the Strategy	Indicators	Baseline 2009[3]	Indicative Targets to 2014[4]
Combat crime and drug trafficking	**Citizen Security**	Enhance citizen security	Reduce crimes in households	% of households that are victims of crime	33.66% Source: ENUSC	29% Source: ENUSC
			Increased efficiency of the judicial system	Minor crimes unsolved (closed) or solved at great fiscal cost	830,000 Source: Public Ministry, Carabineros, judiciary	664,000 Source: Public Ministry, Carabineros, judiciary

I. CONTEXT

1.1 Chile has been characterized by its sound economic performance, having consolidated its macroeconomic policies and institutions, and by the important role that the private sector has played in the country's development. The economy grew at an average annual rate of 4.4% between 2005 and 2010, the fiscal situation is sound, and the public sector debt is low, representing 9.2% of GDP in 2010. Economic growth is expected to reach 6.3% in 2011 and 5.0% in 2012, while the public debt will be maintained at low levels.

1.2 In recognition of its economic success and sound institutions, in May 2010 Chile was accepted as a full member of the Organization for Economic Cooperation and Development (OECD). Nonetheless, Chile is below the OECD average for many development indicators, particularly as regards income, the environment, citizen security, governance, and education.[15] In order to converge towards OECD standards in a reasonable time frame, a major joint effort will be needed on the part of the government and society.

1.3 Regarding income, the country has set the goal of attaining the threshold for OECD countries on income per inhabitant by 2018, which would require 6% annual growth through that year. Growth rates of that magnitude would require an increase in overall economic productivity.[16] Since the fundamental elements for economic growth have been resolved, to become a developed country Chile needs to implement second- and third-generation structural reforms aimed primarily at strengthening the country's productive structure and adjusting it to the global environment of growing competition so as to boost productivity. Implementing such reforms presents a greater challenge for the country, given their inherent complexity from a technical and policy standpoint.

1.4 On 11 March 2010 the government of the Coalition for Change took office, ending a cycle of four successive governments of the *Concertación* that extended over 20 years.[17] The new administration has maintained the basic lines of economic and social policy that had laid the basis for the economy's solid performance and for the progress achieved on social indicators.[18] At the same time, the government program constitutes a meaningful basis for convergence with the economic and social standards of the OECD and for boosting overall economic productivity. The seven fundamental pillars of the government plan are: (i) to restore the economy's capacity for growth; (ii) to restore the capacity to create jobs; (iii) to combat crime and drug trafficking; (iv) to achieve quality and equity in education; (v) to achieve

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[15] See Electronic link "Chile and the OECD" for more information.

[16] The main explanation for the slowdown in growth between the 1990s and the first decade of the 2000s was the drop in overall economic productivity.

[17] The Coalition for Change is a center-right coalition, while *Concertacion* is a center-left coalition.

[18] Poverty declined by nearly 24 percentage points from 1990 to 2009, to 15.1% of the total population. The Gini coefficient, measured in terms of monetary incomes, declined from 0.56 to 0.53 over the same period.

quality and equity in health care; (vi) to combat poverty and excessive inequality; and (vii) to strengthen democracy (see electronic link "Pillars of the Government of Chile").

II. THE IDB GROUP IN CHILE

2.1 Chile would not need multilateral financing to achieve its development goals, given the level of its fiscal savings and the fact that the public sector has access to capital markets at competitive prices. In fact, although the IDB is the leading multilateral agency in the country, its share in the financing of the Chilean economy is modest. Public sector debt to the IDB in 2010 represented around 0.3% of GDP, and 81% of total multilateral debt.

2.2 Nevertheless, there is strong demand on the part of the government for an agenda based on knowledge products in areas where the Bank has experience and comparative advantages. For the Bank, this is an opportunity to transfer to countries of the region the good practices and know-how that Chile has built up over the last decade, and to move forward with the agenda of South-South cooperation.

2.3 The Bank's active sovereign-guaranteed portfolio in July 2011 contained 15 loan operations for a total of US$490.2 million, of which US$318.2 million remained to be disbursed.[19] The portfolio is concentrated primarily in water and sanitation (41%), fiscal and municipal management (32%) and gender and diversity (9%). The non-sovereign guaranteed portfolio stood at US$155.8 million in July 2011, of which 80% corresponded to the Structured and Corporate Financing Department (SCF), 14% to the Inter-American Investment Corporation (IIC) and 6% to the Opportunities for the Majority Sector (OMJ).[20]

2.4 Assistance through nonreimbursable technical cooperation (NRTC) has been growing, confirming the transition toward an agenda based on knowledge products and reflecting the importance of technical additionality compared to the provision of financial resources in the Bank's relationship with the country. Between 2006 and 2010, disbursements of NRTC rose by 125%, and the portfolio currently contains 62 NRTC operations for US$48.8 million, of which 60% corresponds to the MIF.

[19] The majority of projects in the current portfolio were approved only recently (within the last two years).

[20] SCF serves the private sector through loan operations and guarantees to financial intermediaries, and also addresses the transport, energy and agroindustrial sectors; the IIC provides support in various areas to small and medium-sized businesses with special attention to the financial services, aquaculture, fisheries and food sectors; and OMJ provides access to credit for low-income groups. As to the MIF, its portfolio consists largely (85%) of nonreimbursable technical cooperation and represents less than 3% of the NSG portfolio; it serves the private sector by supporting access to financing for MSMEs and low-income groups, access to basic services (energy in particular) and access to markets.

III. BANK STRATEGY WITH CHILE 2011-2014

3.1 In Chile, both the public sector and the private sector have access to credit at competitive prices, and the price offered by the IDB is similar to that available through the private banking system. Consequently, a crucial factor in the IDB's appeal to Chile is the value that the Bank can add to its loans through technical advisory services,[21] project impact evaluations (ex post), discussion of public policy, and the particular support it can bring to projects it finances in areas where it has comparative advantages over the private sector because of its sector expertise and technical capacity.

3.2 Recognizing that technical assistance that brings added value will be the key to its relationship with the country, the Bank will focus its participation primarily on: (a) supporting priority areas as defined in the country strategy through "umbrella programs" based on technical assistance,[22] and (b) boosting the transfer of experience from Chile to other countries in the IDB Group.

3.3 In particular, nonreimbursable technical-cooperation operations will focus on identifying loan operations, pilot programs, and evaluations that: (i) help to boost economic productivity; (ii) contribute to convergence towards OECD standards; and (iii) help to support South-South cooperation.

3.4 The sectors proposed by the Bank fall within the areas defined in the Report on the Ninth General Increase in the Resources of the Bank (GCI-9) and correspond to the challenges identified in the Government Program. The main objective of the selected sectors is to foster increased economic productivity and contribute to Chile's convergence with OECD standards. The sectors identified are: (i) Labor Market: Equity and Productivity; (ii) Climate Change; (iii) Innovation, Science and Technology; (iv) Public Sector Management; (v) Citizen Security; (vi) Transportation and Road Safety; and (vii) Trade and Integration.

3.5 In terms of relevance to the country, the Labor Market, Climate Change (particularly energy-related issues), Innovation, Science and Technology, Public Sector Management, and Trade and Integration sectors will help boost economic productivity and contribute to convergence towards OECD standards, while the Citizen Security sector will contribute to the latter objective. Moreover, those sector priorities are also relevant for the Bank to the extent that the Innovation and the Labor Equity and Productivity sectors will contribute to the goal "poverty reduction and equity enhancement" target, while the Climate Change sector will help meet the "climate change, sustainable energy and environmental sustainability" target.

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[21] The 22 August 2001 Memorandum signed by the Government of Chile and the Bank establishes the terms and conditions for the fee-for-service Advisory Services Program, which is implemented only in Chile—the sole country to have signed the memorandum of understanding.

[22] "Umbrella programs" are understood as comprehensive, multi-component programs aimed at avoiding scattered, very small technical cooperation operations.

3.6 In addition to the foregoing, the Bank plans to further deepen dialogue with the government in the following areas: (i) social welfare, where there is a deficit in the protection of older adults and opportunities exist for cooperation in the design of a government program of conditional cash transfers ("ethical family income"); (ii) indigenous peoples, where shortcomings have been identified preliminarily in rural areas in terms of low productivity and poor market links for indigenous agricultural producers, and in urban areas in terms of human capital and income gaps and the lack of culturally relevant spaces; and (iii) education, where there are deficiencies in teacher training, and the quality of public compared to private education, and in preschool education. Once the Bank completes its diagnostic assessment of these sectors, and assuming agreement on priority areas for its participation, it will examine the advisability of updating the present strategy detailing the framework for Bank action in those sectors.

3.7 Fostering private sector participation will be an essential part of the country strategy. However, there are challenges in the Chilean context for NSG operations, given the breadth and diversity of credit available in that country. Bearing this in mind, the NSG windows have very specific opportunities for action. On the one hand, during the period covered by this strategy, they will support the priority areas of climate change (focusing on renewable energy and energy efficiency),[23] transportation and road safety, innovation, science and technology, and trade and integration. On the other, they will follow strategic lines of action aimed at supporting activities that promote greater social inclusion (microentrepreneurs and individuals at the base of the pyramid whose access to banking services is still insufficient); innovative activities for local banks that do not yet have inhouse experience or an appetite for risk; companies that have constraints in terms of credit from local banks, and SMEs in general. Following those guidelines, SCF and OMJ, as well as the IIC and MIF, will pursue additional opportunities in areas where they can add value, such as: (i) agroindustry, helping companies boost their productivity by adopting new technologies, promoting the sector's competitiveness by increasing and diversifying exports and facilitating market access for small farmers by incorporating them into the supply chains of medium-sized and large companies; (ii) financial services, with a focus on access to credit for SMEs, the mortgage sector, and access to credit for low-income populations; and (iii) social sectors, specifically the health sector, by expanding hospital facilities, and higher education, by expanding private and/or public universities without a sovereign guarantee, both in the framework of public-private partnerships.[24]

[23] For example, SCF sees strong potential in solar, wind, and geothermal projects. The IIC also sees room to support new technologies, and the MIF would support the renewable energy sector among SMEs.

[24] See footnote 20.

A. Labor markets: Equity and productivity

3.8 Over the last 15 years the growth of labor productivity in Chile has slowed significantly.[25] The problems to be addressed in the labor market are: (i) relatively low employment rates for women and young people, unequal participation rates by level of education, and fewer employment opportunities for the less-skilled and poorer groups.[26] At the same time, there are significant rigidities in labor law that impede job creation, particularly for the most disadvantaged workers; the labor market seems to be one where some workers are protected by labor legislation (with social benefits) while others are left unprotected, where there are significant numbers of workers on temporary contracts; and important sectors of the country are convinced of the need to update the regulations governing collective bargaining in order to increase the level of unionization,[27] and (ii) when it comes to vocational training, both for the employed population and for vulnerable groups, there are various weaknesses that must be addressed: such training is not linked either to higher technical education or to the lifelong learning approach; the coverage of vocational training is low,[28] there are limited training opportunities for low-income women,[29] management by the National Training and Employment Service (SENCE) is inadequate, as reflected in a series of training programs[30] with no unified administration and with no quality control standards and mechanisms; public funds are inappropriately targeted;[31] the tools provided to help the most productive and employable individuals enter the labor market seemed to lack relevance,[32] and there is little evidence that the SENCE training programs are effective.[33]

[25] Labor productivity rose at an average rate of 4.2% during the 1990s, slowing to 1.5% in the decade since 2000.

[26] (a) The female participation rate and the female employment rate are respectively 9 and 16 percentage points below the average for Latin America and the OECD; (b) the youth participation rate and the youth employment rate are respectively 12 and 15 percentage points below the average for Latin America and the OECD; (c) among women, while one in eight women in the first quintile is working, in the fifth quintile one in two is working; (d) the employment rate for those with eight years or less of schooling is 27 percentage points below that for those with 13 or more years of schooling.

[27] Fewer than 15% of salaried workers are unionized.

[28] 13% of the labor force is trained with public funds.

[29] They have a very low participation rate, and when they work they do so in firms that provide no training.

[30] For example programs that offer training in administration, applied sciences and technologies, personal services, computing and informatics, and languages and communication.

[31] Only 22% of government training funds reach the poorest sectors.

[32] According to the 2007 Business Longitudinal Survey, 19.2% of workers took no training because they could not find a course suited to their needs.

[33] The MIF has been supporting projects to develop the job skills system for years. It is currently implementing operation CH-M1015, which is aimed at strengthening the supply of job training and building decision-making capacity among those who apply for training services.

3.9 Restoring the capacity to create jobs is a pillar of the government program and involves increasing and improving vocational training, broadening the aspects subject to collective bargaining, and strengthening the union training school.

3.10 To help improve the functioning of the country's labor market, with a view to enhancing productivity and employability, the Bank will support the Ministry of Labor in a series of processes and reforms designed to: (i) further the reform of labor policies, including issues relating to collective bargaining, negotiated adaptability and unions, through the compilation of available information, diagnostic studies and prefeasibility analyses, evaluations of processes, outcomes, impacts and benefits as tools for the cost-effectiveness of policies, and the analysis of best practices and options for reform; and (ii) improve the efficiency and effectiveness of public spending on training for employees and for labor market entry by surveying and consolidating available information for the design and implementation of a transparent management system for the use and subsequent monitoring of resources, evaluation of the effectiveness and relevance of existing programs dealing with labor market entry and targeting at priority groups, modernization of pro-employment instruments and services for improving the economic conditions of families with particular emphasis on vulnerable groups,[34] and institutional strengthening for SENCE.

3.11 The main risks would stem from a lack of agreement between the various political players, which would impede the adoption of the legislative measures needed to achieve the proposed objectives. Given the Bank's recognized impartiality and technical credibility, this risk can be mitigated by having the IDB act as intermediary to foster dialogue and build consensus.

B. Climate change

3.12 The institutional framework dealing with climate change in Chile has been headed by the National Environment Corporation (CONAMA), which in collaboration with other ministries has produced both a National Climate Change Strategy (ENCC) and a National Action Plan on Climate Change (PANCC) to address the effects of climate change.

3.13 On the issue of **adaptation** to climate change, the models for forecasting the effects of climate change in Chile indicate that the country will suffer a gradual rise in temperatures throughout its territory, with a high probability of reduced precipitation in the most important agricultural areas[35] as well as the shrinking of glaciers in certain watersheds,[36] while at the same time the extreme south will see a progressive increase in precipitation.[37] Coupled with this is a high probability of

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[34] Vulnerable groups here refers to women, young people, and low-income families.

[35] Territory lying between 30° and 42°S, i.e. Norte Chico and the Lakes Region.

[36] Watersheds where glaciers are a relatively important contributor to the water supply, i.e. those between Aconcagua and Cachapoal, and certain watersheds in the north of Chile

[37] The impact on precipitation in the extreme north is ambiguous, and the likely trend is very unclear.

extreme natural events such as landslides and floods that will affect the operating conditions and integrity of infrastructure in cities and watersheds.[38] There is little available information for assessing and addressing the likely effects on the availability and variability of water throughout the country and the impact on water use for human consumption, irrigation, mining and power generation,[39] on food security through changes in productivity and yields in agricultural, livestock and forestry zones, or the effects on land and maritime ecosystems and impacts on the integrity and operation of the country's infrastructure. On the issue of climate change **mitigation**, the greatest challenge is to uncouple economic growth from rising greenhouse gas emissions.[40] The energy sector is projected to account for nearly 85% of the country's GHG emissions, and it is therefore crucial to introduce low carbon-content technologies and take effective energy efficiency measures. Lastly, on the **institutional front**, there are challenges in terms of intersectoral coordination, given the multiplicity of ministries and ministerial units responsible for implementing lines of action under the PANCC.[41]

3.14 The issue of climate change is part of the government program announced on 21 May 2010. In particular, in the energy area the government objective is to promote a system of information on energy efficiency and to boost the generation of energy from clean and renewable sources.

3.15 To address these challenges, the intention is to put together an institutional architecture to coordinate handling of the climate change issue by the various institutions involved and so ensure better implementation of the ENCC and the PANCC, including policy-making and developing regulatory frameworks to address the issues of adaptation (especially in the agriculture, forestry, and water sectors) and mitigation (reducing the carbon intensity of the energy mix and promoting energy efficiency). On this last point in particular, the Bank will support: (i) dialogue to initiate the use of the country's abundant renewable energy sources; and (ii) efforts to initiate the use of solar and tidal energy. The NSG windows will seek to generate **additionality** in solar, wind and geothermal projects, and also to support hydroelectric generation projects; they will provide access to financing through venture capital inputs to renewable energy funds; and they will provide

[38] Climate change could have a series of impacts on various productive sectors, causing annual economic losses equivalent to 1.1% of GDP in the next 90 years

[39] Around 50% of electricity generation in the central interconnected grid, which supplies 90% of the Chilean population, comes from hydropower, which is already exposed to climatic variations. The last energy crisis associated with a shortage of rainfall in the central zone was in 1999.

[40] In the last 25 years GDP increased by a factor of 3.5 while GHG emissions tripled. It is estimated that by 2030 Chile's emissions per capita could be similar to current levels in several OECD countries that have adopted GHG emission cap commitments.

[41] The PANCC contains priority lines of action for each pillar of the ENCC and each proposed line of action is the responsibility of a specific ministry. There are more than 10 ministries involved in the PANCC through various ministerial units in charge of implementing the actions.

support to the commercial banks through "green lines" for financing projects in energy efficiency, renewable energy and other areas.

3.16 The main risks would come from the lack of agreement among the various political players, which could impede the adoption of laws and the regulatory framework needed to achieve the proposed objectives, and the lack of coordination between the national government and local (regional and municipal) governments, given the latter entities' lack of institutional capacity in climate change issues. To mitigate these risks the Bank would support coordination among the different levels of government, and the development of public policies and institutional capacity at the local government level.

C. Innovation, science and technology

3.17 Since 2004 the Chilean economy has slowed, with growth falling to below 5% per annum and no improvement in productivity.[42] International evidence shows that innovation is a key factor for boosting productivity, and for the last 20 years the government has made it an explicit policy objective to promote science, technology and innovation. Yet there are still challenges in this area: (i) investment in research and development as a percentage of GDP is well below the level in benchmark countries,[43] and there is little applied research into company productivity;[44] (ii) there are gaps in the development of ICT infrastructure, where despite progress with broadband access and computer renovation the country has been marking time in terms of applications and uses[45] because of the structure of the regulatory system[46] and SMEs' shortage of complementary assets that would make broadband investment profitable;[47] and (iii) intellectual property protection for domestic

[42] In this section, "productivity" refers to total factor productivity or TFP.

[43] Benchmark countries were selected on the basis of per capita income and the ratio of R&D expenditure to GDP for a panel of countries. The benchmark was R&D expenditure/GDP in countries that had or have a per capita income similar to that of Chile today and that have shown successful convergence, such as Korea, Finland and Ireland several decades ago. R&D expenditure in Chile represents 0.4% of GDP versus 1.0% for the benchmark countries. This underinvestment is particularly severe in the private sector: in Chile 42% of domestic R&D investment is made by the private sector, compared to 50% in the benchmark countries.

[44] The technology content of exports (share of high-tech exports in total exports) declined from 6.5% in 2006 to 4.5% in 2009, while the benchmark countries have rates of 11%.

[45] Only 28% of microenterprises have broadband access, compared to 85% of large firms. When it comes to applications and uses, only 6% of microenterprises have a webpage, versus 62% of large firms; and only 2.8% of microenterprises use e-commerce (either for selling or buying products) versus 15% of large firms.

[46] The Chilean regulatory system is based on infrastructure competition, which requires each operator to deploy its own network and make it profitable on the basis of its own clients. This model limits coverage, as it generates highly segmented infrastructure, reduces broadband availability and penetration (since investment flows to localities where income profiles or business volumes offer sufficient purchasing power) and raises the price of services.

[47] Complementary assets range from renewal of the stock of computers and physical networks to building capacity for using the technology, designing applications, adapting the business model and providing certainty as to the confidentiality of transactions via digital media.

innovators is weak.[48] and there is little dissemination of registered information among potential innovators. This situation is due in part to the fact that protection for intellectual property rights is scattered among various institutions, including the National Intellectual Property Institute (INAPI). INAPI betrays managerial weaknesses associated with failure to adapt its organizational design to the growing demand for patents, and the lack of a modern technological platform, as well as a shortage of specialized staff.

3.18 A fundamental pillar of the government program is to restore the economy's capacity for growth and job creation. Among other actions, the government intends to foster access to technology for SMEs and to develop a culture of entrepreneurship and innovation.

3.19 The Bank will assist the government in the following lines of action: (i) boosting the intensity and quality of public investment in the promotion of business innovation through construction of a single registry of beneficiaries, linking firms in that registry with business databases, and disseminating evaluation techniques that will offer solid evidence for redesigning the system of incentives in support of innovation; (ii) revising broadband telecommunications regulation as it relates to costs and rate setting, building capacity in the telecommunications department, financing installation of trunk networks to bring fiber optic facilities to municipios as well as last-mile broadband networks, generation of capacities for accessing and disseminating satellite information for agriculture and the design of programs to support adoption of ICTs in SMEs; (iii) strengthening Chile's intellectual property system and the capacities of INAPI by upgrading its technological platform, redesigning the operating model of the trademarks and patents divisions of INAPI, adopting a proactive strategy for disseminating existing technology to SMEs, and strengthening the INAPI management unit. In the context of NSG operations, OMJ will support financing for highly socially innovative business models that help give low-income households in Chile increased access to information technology.

3.20 The main risks in these areas relate to the difficulty in generating incentives for firms to boost their innovation investment sufficiently; the lack of a broadband plan; the dispersal of responsibilities for ICTs and insufficient institutional backing for the digital agenda; and INAPI's weak execution capacities. Most of these risks can be mitigated through technical assistance that includes institutional strengthening plans and actions.

D. Public sector management

3.21 Chile is one of the leading performers in the region in terms of improving government management and institutional capacity. Yet the country still faces some important challenges if it wishes to bring itself up to OECD standards in terms of modernization of the State. For example: (i) the information needed to monitor

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[48] Some 25% of firms are affected by the lack of intellectual property protection, as reflected in the ease with which products are imitated.

public interventions is scant and lacks transparency;[49] (ii) the proportion of computerized government procedures and services accessible via the State Interoperability Platform (PISEE) is relatively low,[50] meaning that the time users must devote to dealing with government formalities is still high and, with some notable exceptions (Internal Revenue Service (SII), Civil Registry, ChileCompra), the availability of online procedures and services is still relatively low; (iii) there are weaknesses in the strategic planning systems, due to shortcomings in the linkage between policy formulation and implementation, and in evidence-based decision-making, because policy evaluations are of limited scope and are not used in the redesign of policies; (iv) Chile lags behind other OECD countries in regulatory policy;[51] (v) progress in improving the business climate has stalled;[52] (vi) there is little information about the impact that most SME promotion instruments have had on the productivity of these companies; and (vii) there are great regional disparities in incomes, economic diversification, and productivity levels.[53]

3.22 Modernization of the State and the reform of laws that hurt the business climate are the basic lines of action of the government program aimed at restoring the economy's capacity for growth.

3.23 The Bank proposes to work with the government on modernization of the State in the following ways: (i) support launching and disseminating the Government Data Publication Project;[54] (ii) enhance the usefulness (benefits) of the PISEE through support for design and implementation of electronic authentication for firms and

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[49] This has been one among many factors explaining the loss of the capacity of public institutions to represent citizens' wishes and needs. In 1989, 88% of the population 18 years and over was registered in the voters' lists, but in 2009 the figure was only 66%; over that same time the average age of voters rose from 39 to 50.

[50] Supported with funding and technical assistance under project CH-L1101.

[51] Chile does not have an explicit regulatory policy nor any central agency responsible for the regulatory process, while 97% of OECD countries have such a central agency; Chile does not use mandatory public consultations in the process of generating legislation, although 80% of OECD countries do so; Chile does not publish a list of laws to be designed or amended, although 66.6% of OECD countries do so; Chile does not have standard procedures for formulating laws, although 100% of OECD countries do so; Chile has no mechanisms for ex post measurement of the impact of regulatory policy, whereas 20% of countries have such mechanisms for all cases.

[52] In 2010 Chile dropped nine places, to position 49, on the Doing Business indicator (for the first time losing its lead ranking in Latin America) because of its low score in the matter of closing a business (the cost of closing a business in Chile is 15% of assets, whereas the OECD average is 9.1%).

[53] Regional interventions have been isolated and haphazard, and only recently was there a move to make the process more coordinated and orderly, with creation of the Regional Productive Development Agencies (ARDP). Those agencies are now being transformed into highly autonomous regional corporations (CRDP) and a major effort will be required to oversee the transition, to maintain achievements to date, to correct past errors, and to strengthen the role of the CRDPs as the chief articulators of development policy in each region.

[54] A government initiative that will make government information publicly available through a portal that allows simple and direct access.

individuals[55] so that, consistent with the rules for exchanging private information among State institutions, the PISEE can be used to computerize more procedures (including those at the local level) and to provide backing for design and creation of a longer-term institutional structure to improve service to citizens and businesses; (iii) support improvement of institutional decision-making arrangements within the Ministry of the Interior, the Ministry General Secretariat of the Presidency, the Ministry of Finance and the Office of the President; (iv) support the design of institutional framework for market regulation policies; (v) provide technical support for preparing the new bankruptcy law and design and implementation of the Competitiveness Bureau; (vi) improve the quality of information on productivity and design indicators and train regional players to improve the design, targeting and implementation of development instruments; and (vii) support strengthening of the Regional Productive Development Agencies (ARDP) as part of their conversion to the status of regional government corporations governed by private law.

3.24 The modernization agenda will need a prolonged period of maturation which will exceed the four-year time limit of presidential mandates in Chile, and this could compromise the efficacy of IDB support. Under this scenario, building the kinds of crosscutting consensus that the agenda requires is a challenge that the strategy will need to address. The Bank can mitigate this risk by contributing to the stability and continuity of the modernization agenda and by assessing the still-pending challenges towards the end of the current term. It can also help in the search for consensus by finding the best technical solutions, drawing upon its knowledge of best international experience and its status as an impartial external player that can temper opposing interests in the process.

E. Citizen security

3.25 Security is the principal concern of the citizenry.[56] Although the Chilean justice system has in recent years been undergoing a transformation, there are still problems stemming from the inherent dynamics of criminality, administrative management, and the postponed reform of civil procedure,[57] with the result that: (i) the judicial system lacks the mechanisms to handle either highly complex crimes (such as drug trafficking) or less complex ones;[58] (ii) the system suffers from low legitimacy, and only 3% of victims or witnesses receive specialized attention; (iii) there is fragmentation, overlapping and disparity in criminal data sources; and (iv) there are shortcomings in the area of social reintegration and rehabilitation,

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[55] The authentication process requires development of new interfaces between the PISEE and the systems of the SII and the civil registry.

[56] Between 1997 and 2009 there was a 157% increase in complaints received by the police concerning crimes that affect in particular low-income households, which are the victims in 89% of cases.

[57] In 2000, the criminal procedure reform in Chile began to be phased in, and today it is fully operational.

[58] Minor crimes are slow to be resolved, at great fiscal cost.

both for adults (Gendarmeria) and for juveniles (Servicio Nacional de Menores, SENAME).[59]

3.26 One of the populace's main concerns is rising crime. The government has therefore pledged to focus on combating crime and drug trafficking. Accordingly, the government program calls for creating a new Ministry of the Interior and Citizen Security, the adoption of prevention and the rehabilitation measures, measures to control and prosecute crime, and protection for the victims of crime.

3.27 The Bank will work with the government on the following initiatives: (i) reforms needed for the processing of highly complex crimes as well as minor offenses; (ii) creation of a system to serve victims and witnesses; (iii) institutional strengthening of the entities responsible for the sector by establishing a criminal information system for developing an intelligent approach to social prevention; and (iv) strengthening the institutions responsible for rehabilitation and social reintegration of prisoners.

3.28 The effectiveness of IDB support in this area could be affected by the lack of articulation between entities with complementary functions and/or insufficiency or uneven institutional capacity among them. These risks can be mitigated through Bank participation in the initial stages of formulating policies or strategies, with a strong emphasis on advisory services and direct technical assistance by Bank specialists and consultants; giving priority to those reform initiatives that have clear purposes and strategies and a minimum political consensus needed to sustain the reform effort over the medium term; and investment in institutional capacity in those institutions that betray weaknesses, in order to achieve the proposed objectives.

F. Transportation and road safety

3.29 The last decade has seen rising per capita incomes and rapid physical expansion of the city of Santiago, with the attendant challenges in the area of transportation and road safety. For example: (i) during the 1990s, rapid economic growth sparked a sharp increase in individual automobile use at the expense of public transportation in the city of Santiago.[60] The government responded with a determined policy in favor of public transit, for which there are still outstanding issues relating to institutional design, operations and contracts, the development of urban infrastructure, fares and financing policies, and sustainability of the regulatory framework; and (ii) the highway accident death rate in Chile is 13.1 for every 100,000 inhabitants, substantially above the level for benchmark countries.[61] The causes of those accidents are multidimensional, but one major cause is the lack of

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[59] Adult prison facilities are overpopulated to the extent of 50%, recidivism rates are high (50%), and there is excessive resort to detention for minors. As well, 63% of prisoners are held in provisional detention.

[60] The share of private vehicle trips increased from 19% to 38%, while trips by bus fell from 68% to 49%.

[61] Sweden 4.9, United Kingdom 5.4, and Holland 4.5. Information from the comparative study conducted by the Spanish Highways Association, with data from 2009.

an adequate traffic code with the accompanying institutional framework for enforcing it. Standards for issuing driver's licenses vary among municipios and there are inefficiencies in the handling of violations.[62]

3.30 The issue of transportation and road safety is a fundamental element of the government program, one objective of which is to improve the functioning of Transantiago and reduce the frequency of highway accidents.

3.31 The Bank proposes to work with the government to: (i) increase the use of public transit in Santiago through support for institutional design, fare-setting and subsidies policy, infrastructure maintenance and management policy, regulation, financing, operation and other aspects relating to the technical, economic and environmental sustainability of metropolitan transport; and (ii) enhance road safety through support to the National Transportation Safety Commission (CONASET)[63] in order to: (a) improve driver behavior by creating an agency with high and standardized criteria for granting licenses, and (b) upgrade the enforcement of traffic rules through a modern, computerized central information system on traffic violations with online payment of fines, and the placement of photo radars in ways that will avoid the problems with the previous experiment. The Bank will also continue its support for government concession initiatives through its private sector windows.[64]

3.32 The main risks arise from the lack of agreement among the different political players, which could impede the adoption of the legislative measures needed to achieve the proposed objectives. To mitigate these risks, the Bank will support the government in the process of debating and approving the laws, so as to achieve the necessary agreements.

G. Trade and integration

3.33 Although the Chilean economy is one of the most open in the region, it is not very diversified either in terms of products or of export firms and destinations.[65] Diversifying exports will require, among other things, maximizing Chile's many

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[62] Fines are processed by the local police courts, which are chronically backlogged. An experiment with photo radars proved very unpopular, as people saw them as a municipal revenue collection tool rather than an accident prevention instrument, and they were withdrawn.

[63] CONASET comprises the Ministry of the Interior, the Ministry General Secretariat of the Presidency, the Ministry General Secretariat of Government, the Ministry of Education, the Ministry of Justice, the Ministry of Public Works, the Ministry of Health, the Ministry of Housing and Urban Development, the Ministry of Transportation and Telecommunications, and the Carabineros de Chile.

[64] SCF may participate in projects involving concessions for highways and airports, among other facilities, within the transportation sector.

[65] Over the last five years copper has accounted for 54% of total exports on average, largely as a result of high international copper prices. Moreover, because the principal consumers of copper are in Asia, and particularly in China, exports to that region averaged close to 50% of the total in that same period. Finally, in 2010 nine of the country's ten largest exporting firms were in the mining sector, accounting for nearly half of the country's exports.

trade opportunities. For example: (i) Chile has lost ground to key competitors such as Mexico and Colombia because of inefficiencies in trade facilitation,[66] customs and logistics, reflecting the lack of an integrated foreign trade system;[67] (ii) the management of trade agreements is inefficient and prevents Chile from seizing the potential opportunities offered by those agreements;[68] and (iii) the country is missing out on opportunities in offshoring services.[69]

3.34 Chile is a small, open economy that needs to have a diversified export base in order to achieve sustainable long-term growth rates. The government recognizes this as a fundamental element for restoring the economy's capacity for growth.

3.35 The Bank will work with the government to: (i) improve trade facilitation, customs and logistics aspects through implementation of an Integrated Foreign Trade System (SICEX); (ii) take further advantage of free trade agreements by assessing Chile's use of preferences included in those agreements,[70] designing and implementing traceability systems in key agricultural export sectors to allow swifter and more efficient market access, and introducing the "authorized economic operator" status to promote greater and better access to international markets; and (iii) encourage exports of offshoring services through innovative promotional initiatives such as the development of new post-investment services, the design, implementation and financing of customized training programs, facilitation of international process and quality certification, and design and development of a program for SMEs to gain a foothold in international markets. Through SCF, the Bank will also work to promote foreign trade by supporting the expansion of correspondent banking lines.

3.36 The main risks stem from the lack of dialogue and coordination between the government and the private sector, the differing levels of technological development in government services, and the lack of interagency coordination for

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[66] Trade facilitation embraces all those activities, practices and formalities involved in compiling, presenting, communicating and processing the information required for the movement of goods in international trade.

[67] In Chile, the process of releasing a shipment for export takes 21 days, of which 11 are accounted for by paperwork. That is more than double the OECD figure, and is above that for key competitors such as Mexico and Colombia (14 days).

[68] The implementation and effective administration of trade agreements requires close coordination with a great number of State agencies that are highly heterogeneous and responsible for a great variety of issues. DIRECON (International Economic Relations Bureau) is responsible for coordinating trade policy, a task it finds difficult because it does not have vice-ministerial rank and its mandate is not aligned with the demands for interagency coordination that the domestic situation requires.

[69] The world market for offshoring services amounted to US$200 billion in 2010, with annual growth exceeding 15%. Chile is among the 20 economies worldwide with the greatest potential for this industry, yet the sector generates fewer than 22,000 jobs a year and revenues were less than US$900 million in 2010, despite a short-term potential estimated at more than US$5 billion.

[70] The preferences contained in trade agreements correspond to preferential customs treatment (duties lower than the generally applicable regime). In Chile's case, a significant number of exporters are not making use of these benefits.

supporting initiatives that involve multiple entities. The risks can be mitigated through design and implementation of appropriate mechanisms for dialogue and coordination with the private sector at an early stage of processes and activities, using Bank funds to even out the level of technological development in the government services involved, and direct support for institutional strengthening and new coordination mechanisms in the entities involved.

IV. LENDING FRAMEWORK

4.1 The fiscal balance for 2009 and 2010 was marked by the adverse impacts of the international financial crisis and the earthquake of February 2010. In 2010 the central government ran a deficit of 0.4% of GDP, while the structural deficit reached 2.1% of GDP. Over the four year period 2011-2014, the economy is expected to grow at an average rate of 5.4%, and the average fiscal deficit should be around 0.3% of GDP, with the structural balance moving by 2014 to a deficit of 1% of GDP.

4.2 Based on these projections, the central government's gross financing needs for the period 2011-2014 will be US$13.231 billion.[71] Those needs will be covered primarily through the issuance of debt on domestic and international markets (US$15 billion), and to a lesser extent from primary balances (US$2.276 billion)[72] and the drawdown of funds accumulated in the Economic and Social Stabilization Fund (FEES, US$2.096 billion) (see Annex II).

4.3 New sovereign guaranteed (SG) loan approvals by the IDB for the period 2011-2014 are estimated at US$120 million (equivalent to US$30 million per year on average) calculated on the basis of expected interventions in priority sectors. Gross disbursements over that time would amount to US$124 million and the net capital flow would be US$8.3 million. The Bank also expects to approve NRTC operations for the financing of knowledge products.

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[71] In Chile's case, these needs include the redemption of acceptance bonds, which according to the government's own estimates would amount to US$2.773 billion.

[72] This figure is consistent with a total estimated surplus of 1.3% of GDP for 2011, according to the latest report from the *2010 Public-Sector Financial Management Assessment and Updated Projections for 2011* of June 2011 from DIPRES, and a shift in the public finances to a structural deficit of 1% of GDP by 2014, according to the DIPRES Public Finance Report of October 2010.

Table IV-1. Loan Flow Scenario

	2010p	2011p	2012p	2013p	2014p	2011-2014p Average
Approvals (1)	69.0	9.8	20.0	70.0	20.0	30.0
Disbursements	18.8	19.0	45.0	45.0	15.0	31.0
Net loan flow	-20.5	-21.0	-5.7	12.0	23.0	2.1
IDB debt						
US$ millions	611.9	590.9	585.2	597.2	620.2	598.4
% external debt	3.5%	3.9%	3.9%	4.0%	4.1%	4.0%
% public sector multilateral debt	80.9%	89.2%	91.5%	94.2%	97.0%	93.0%
% public sector debt	3.0%	3.1%	2.9%	2.8%	2.8%	2.9%
% GDP	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%
PS multilateral debt/ PS debt	3.7%	3.4%	3.2%	3.0%	2.9%	3.1%
PS debt/GDP	9.2%	8.6%	8.4%	8.3%	8.1%	8.4%

(1) The annual approval amounts are indicative and are subject to the availability of Bank resources.

Source: Annex II.

4.4 The debt sustainability analysis indicates that the risks of a scenario in which public debt is unsustainable are minimal. Gross debt of the central government represented 9.2% in 2010, and resources of the Economic and Social Stabilization Fund (FEES) were 5.7% of GDP. Under the base scenario, the gross debt of the central government would decline to around 8.1% of GDP in 2014, with a 50% likelihood that the debt/GDP ratio would be between 5% and 11% of GDP in 2014 (see electronic link, "Public Debt Sustainability").

V. IMPLEMENTATION OF THE STRATEGY

A. Use of country systems

5.1 Over the last decade, Chile has implemented major reforms to public financial administration systems that led to significant progress in terms of transparency and probity. Those efforts are reflected in the results of the recent diagnostic assessments that found sound government management and continuity in public policies—key elements for incorporating Chile as a full member of the OECD.[73] In this context, the benefit of using country systems for the Government of Chile is a confirmation of the use of international standards and best practices in its public management, helping to boost transparency and competitiveness. In addition, it lowers transaction costs and leads to more efficient execution of Bank-financed operations.

5.2 With respect to the procurement system in Chile, based on application of the Guide for Acceptance of the Use of Country Procurement Systems, it is recommended, as

[73] Country Financial Accountability Assessment (CFAA 2005), Country Procurement Assessment Report (CPAR 2009), Fiduciary Systems Assessment based on the Guide for Use of Country Systems (GUS 2010).

a waiver[74] to the methods stipulated in the Procurement Policies and Policies for the Selection and Contracting of Consultants (documents GN-2349-9 and GN-2350-9), that the Board of Executive Directors approve advanced use of that system, as described in document OP-676-1, in operations financed by the Bank, for projects approved subsequent to the effectiveness date of this strategy and for projects in execution, when the Government of Chile so requests.[75]

5.3 During the life of the strategy, the Bank will support strengthening of the Government Financial Management System (SIGFE), recognizing that its updated version, now being implemented in public entities, includes a specific module for administration of externally financed projects. In addition, the Bank will support the Office of the Comptroller General (CGR) in implementing International Public Sector Accounting Standards (IPSAS) and in strengthening its audit and quality control techniques, as part of the new operational framework of understanding with the Bank, which will define the terms and scope of the audits that this control agency will conduct on portfolio projects in light of rules defined by the fiduciary reform.

5.4 As to the use of financial management and control systems, the budget, treasury and government external control subsystems have been used satisfactorily in all operations financed by the Bank. As well, the Bank will now make use of the internal audit subsystem in 50% of operations. The external control subsystem (auditing performed by the CGR) has been used to date by all public entities and is a sound and reliable system, but it is optional for the borrower to request its participation, with the exception of those corresponding to the legislative and judicial branches, which are outside the scope of the CGR.

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[74] The word "waiver" is used, consistent with Board-approved document GN-2538-6, paragraph 2.22 of which reads: "The Management decisions on use of Procurement Systems will be included in the Country Strategy, or in its updates, for approval by the Bank's Board of Executive Directors. In such case, the Board will be requested to approve the use of a System or subsystem through a waiver to the methods set forth in the Bank's Procurement Policies. A subsystem may correspond to a different type of procurement, a component of the System, or a sector in the public administration, including executing agencies that are eligible for PDLs." See electronic link Report on implementation of The Guide on Acceptance of the Use of Chile's Country Procurement System.

[75] This reflects the findings of the Country Procurement Assessment Report (CPAR) approved by the Government of Chile and the Bank in 2009, using the OECD/DAC methodology, which concluded that the system has optimum levels and applies international practices for good public procurement. It is a robust and comprehensive system that brings transparency, confidence and security to the process in its entirety. The modalities recommended for use of the Chilean procurement system in Bank operations are: (i) goods and nonconsulting services where the estimated amount is below the threshold established by the Bank for use of ICB, consistent with procurement methods stipulated by Chilean legislation; (ii) civil works contracted under the price comparison (PC) modality; (iii) consulting services, for which the Bank allows shortlists consisting solely of national firms; and (iv) individual consultants. It should be noted that 72% of operations in the Bank's active portfolio use the ChileCompra information system.

5.5 During the life of the strategy, the Bank will support the government in preparing standard documents for goods and works and in efforts to strengthen the capacity to make greater use of the country system.

B. Coordination with other multilateral and bilateral agencies

5.6 The Budget Directorate (DIPRES) of the Finance Ministry has the lead role in coordinating the work of international cooperation entities in Chile. The Bank is working in collaboration with the World Bank to develop an updated version of the Government Financial Management System, as well as on the issue of climate change; it is working with JICA on issues relating to the earthquake emergency, with GTZ and KfW on renewable energy, with AECID in the water and sanitation sector, and with the OECD on issues of governance and of innovation and technology. This coordination is at the institutional level, and does not involve cofinancing of specific projects. The reason for this is the limited number of multilateral and bilateral entities that have operations and offices in the country, as well as the modest amounts they contribute to financing the national budget.

VI. RISKS TO IMPLEMENTATION OF THE STRATEGY

6.1 Macroeconomic risks.[76] Under the risk scenario, defined as one where developed economies enter into recession and the price of oil remains high, the price of copper and Chile's growth would be adversely affected. Slower growth of GDP and falling copper prices would entail a higher central government deficit in 2012, at around 2.0% of GDP. The funds needed to finance these greater deficits would come from further issuance of debt on external markets in the amount of US$500 million in 2012 and the drawdown of accumulated savings in the FEES by around US$2.3 billion. In addition, Chile could access new credits from the IDB, which would allow it to issue less debt on external markets and/or make less use of FEES funds. Even under the risk scenario, then, Chile would be able to cover its financing needs for the next five years (see electronic link "Public Debt Sustainability").

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[76] There are plans mandated within the framework of the Report on the Ninth General Increase in the Resources of the Inter-American Development Bank to produce an analysis of the macroeconomic sustainability of the borrowing member countries (including annual reviews), but the corresponding process and implications of this activity are yet to be defined by the Bank's Board of Executive Directors.

MACROECONOMIC AND SOCIAL INDICATORS

	2006	2007	2008	2009	2010
Real growth of GDP (%)	4.6%	4.6%	3.7%	-1.7%	5.2%
GDP (US$ billions)	146.8	164.3	170.7	161.2	203.5
GDP per capita (US$)	8,934	9,903	10,188	9,492	11,840
GDP per capita (US$ PPP)	13,066	13,916	14,599	14,306	15,040
Gross fixed capital formation (% of GDP)	19.0%	19.8%	24.6%	21.0%	20.9%
Gross domestic savings (% of GDP)	24.9%	25.1%	22.8%	20.5%	24.2%
National unemployment rate (%)	9.2%	8.5%	9.2%	10.8%	8.2%
Inflation (to Dec. %)	2.6%	7.8%	7.1%	-1.4%	3.0%
Exchange rate (Ch$/US$)	530.3	522.5	522.5	559.6	510.0
Real effective exchange rate (1986=100)	91.7	93.8	96.2	95.8	91.0
Current account (% of GDP)	4.9%	4.5%	-1.9%	1.6%	1.9%
Financial account (% of GDP)	-4.2%	-4.3%	1.3%	-2.1%	-4.4%
Foreign direct investment (% of GDP)	3.1%	6.1%	4.2%	3.0%	3.1%
Portfolio investment (% of GDP)	-6.1%	-10.0%	-4.5%	-7.3%	-3.5%
International reserves (US$ billions, end of period)	19.4	16.8	23.1	25.4	25.3
Central Govt. nominal balance (% of GDP)	7.7%	8.8%	5.2%	-4.5%	-0.4%
Central Govt. primary balance (% of GDP)	8.4%	9.4%	5.7%	-4.0%	0.1%
Central Govt. gross debt (% of GDP)	5.3%	4.1%	5.2%	6.2%	9.2%
Consolidated Public Sector net debt (% of GDP)	-6.1%	-13.4%	-23.8%	-12.9%	-9.7%
FEES assets (% of GDP)	1.8%	8.1%	14.3%	6.3%	5.7%
SOCIAL INDICATORS					
Population (millions)	16.4	16.6	16.8	17.0	17.2
	1990	**2000**	**2007**	**2009**	**2010**
Income inequality (Gini coefficient)	0.57	0.58	0.54	0.55	-
Poverty (% of population)	38.6	20.2	13.7	15.1	-
Internet users (per 100 residents)	0.0	16.5	31.1	34.00	45.0
Mobile phone owners (per 100 residents)	0.1	22.1	84.1	97.0	116.0
Fixed broadband subscriptions (per 100 residents)	-	-	7.9	9.8	10.5

Source: Central Bank, World Bank, IMF, INE, Latin Macro Watch and Mideplan.

LENDING FRAMEWORK

Fiscal situation. The fiscal balance for 2009 and 2010 was marked by the adverse impacts of the international financial crisis and the earthquake of February 2010. After five years of nominal surpluses and eight years of meeting a structural surplus target, in 2009 and 2010 the central government ran nominal deficits of 4.4% and 0.4% respectively, while the structural deficit reached 3.1% and 2.1% of GDP, respectively. For 2011, the latest official government projections indicate a central government surplus of 1.3% of GDP.[77] Lastly, according to the latest public finance report for 2012-2014, the central government would record an average fiscal deficit of 0.8% of GDP, with the structural balance moving by 2014 to a deficit of 1% of GDP.

Table 1. Central Government Financing Needs (US$ millions)

	2009	2010p	2011p	2012p	2013p	2014p	
USES	**4,282**	**3,798**	**3,161**	**3,532**	**3,509**	**3,028**	
Payment of interest	862	1,053	1,381	1,336	1,374	1,421	(1)
Amortization of external debt and T-bills	1,238	866	100	850	1,100	920	(2)
Amortization of acceptance bonds	1,346	1,541	1,280	852	512	129	(3)
Contributions to Pension Reserve Fund	837	337	400	494	524	558	(4)
SOURCES	**4,282**	**3,798**	**3,161**	**3,532**	**3,509**	**3,029**	
Primary balance	-6,464	165	4,471	-874	-729	-592	(5)
Multilateral disbursements	94	-91	-95	-23	-6	5	(6)
IDB		*-21*	*-21*	*-6*	*12*	*23*	
Local market issuances	3,042	6,146	6,000	3,000	3,000	3,000	(7)
International market issuances	99	1,776	0	0	0	0	(8)
Net sale of financial assets (FEES)	9,279	-1,513	-1,000	1,429	1,244	615	(9)
Other	-1,769	-2,684	-6,215	0	0	0	(10)
Gap: Uses - Sources	*0*	*0*	0	0	0	0	

Source:
(1) 2009-2011 DIPRES, 2012-2015 as proportion of total spending 2009-2010.
(2) Ministry of Finance. Assumes maturity exceeding 5 years for any new issuance.
(3) Own estimates based on historic trend.
(4) Estimates in line with Fiscal Responsibility Act.
(5) 2009-2014 DIPRES.
(6) World Bank and IDB (sovereign-guaranteed loans).
(7) 2009-2011 Ministry of Finance, 2012-2015 assuming issuances at 2009 level.
(8) Ministry of Finance, assuming no new issuances between 2011 and 2015.
(9) For 2011, based on DIPRES data. Between 2012-2014, figures calculated to close the use-sources gap.
(10) For 2011, figures calculated to close the use-sources gap.

[77] See *2010 Public-Sector Financial Management Assessment and Updated Projections for 2011* of June 2001, DIPRES.

Medium-term financing needs. Under this base scenario, gross financing needs of the central government for the period 2011-2014 would be US$13.231 billion. In Chile's case, these needs include the redemption of acceptance bonds, which according to the government's own estimates would amount to US$2.773 billion.[78] Those needs will be covered primarily through the issuance of debt on domestic and international markets (US$15 billion), and to a lesser extent from primary balances (US$2.276 billion) and the drawdown of funds accumulated in the Economic and Social Stabilization Fund (FEES, US$2.096 billion).[79] During this time, IDB disbursements are estimated at US$8 million, in a context where net multilateral disbursements would be negative in the amount of US$120 million (see Table 1).

IDB financing. Under the base scenario, new sovereign guaranteed (SG) loan approvals by the IDB for the period 2011-2014 are projected at US$120 million. Gross disbursements over that time would amount to US$124 million and the net capital flow would be US$8.3 million. Those disbursements would pose virtually no risk to the Bank, as over the projection horizon Chile's debt to the IDB would be maintained at around 0.2% of GDP and at around 3% of total central government debt (see Table 2).[80]

[78] The acceptance bonds recognize the government's debt to persons who contributed to the old public (pay-as-you-go) pension system and who switched to the private pension system of individual capitalized accounts in effect since 1982.

[79] In March 2011 the FEES had accumulated reserves of US$12.9 billion.

[80] The increase in the IDB's share of total public debt to multilateral agencies reflects lower net lending flows from the World Bank in recent years.

Table 2. Loan flows and net flows

	2010p	2011p	2012p	2013p	2014p	2011-14p Average
Approvals (1)	69.0	9.8	20.0	70.0	20.0	30.0
Disbursements	18.8	19.0	45.0	45.0	15.0	31.0
Net loan flow	-20.5	-21.0	-5.7	12.0	23.0	2.1
IDB debt						
US$ millions	611.9	590.9	585.2	597.2	620.2	598.4
% External debt	3.5%	3.9%	3.9%	4.0%	4.1%	4.0%
% Public sector multilateral debt	80.9%	89.2%	91.5%	94.2%	97.0%	93.0%
% Public sector debt	3.0%	3.1%	2.9%	2.8%	2.8%	2.9%
% GDP	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%
PS multilateral debt/PS debt	3.7%	3.4%	3.2%	3.0%	2.9%	3.1%
PS debt/GDP	9.2%	8.6%	8.4%	8.3%	8.1%	8.4%

(1) The annual approval amounts are indicative and are subject to the availability of Bank resources.

Sources:
Approvals and disbursements under SG operations: preliminary estimates based on the preliminary dialogue with the country and flow model

IDB debt and net flows: Finance Department IDB/Finance Data mart and own calculations; includes only loans to the public sector.

World Bank debt and net flows: World Bank. Assumes no disbursements between 2011 and 2015.

Public sector external debt, GDP: WEO April 2011.

Total public sector debt, multilateral public sector debt: own projections.

Risk scenario. There is a high probability that developed economies will once again be in recession in the second half of 2011. The outlook in the United States and Europe is not encouraging. In the United States, economic indicators show no signs of recovery and the debate over the debt ceiling reflects a level of antagonism among political players that will make it difficult to take the decisions necessary to revive the economy. In addition, the uncertainty generated by the debt dispute led S&P to lower its rating of U.S. sovereign debt, causing world stock markets to drop and creating a highly volatile environment. Lastly, the political and social conflicts in North Africa and the Middle East are unresolved, with the result that a scenario where the price of oil remains high, or rises, cannot be discounted.

Sluggish growth of developed economies in a setting of high oil prices would adversely affect developing economies, in particular the BRICs, by cutting demand for their export products. As well, raw material prices would decline. The potential impact on capital flows is not clear.

In this alternative scenario, and although Chile has a solid macroeconomic framework that has helped it in the past to weather external shocks to the economy, the country's economic growth is bound to feel the effect of lower export volumes, and a decline in its terms of trade. At the same time, the fiscal accounts would be subject to greater pressure, recognizing that in recent years copper accounted for 17% of total revenues and any decline in GDP growth would reduce noncopper tax receipts. However, by drawing down the savings available in the FEES, government spending could be maintained without significant cuts.

Under this risk scenario, slower growth in GDP and a fall in the price of copper imply an increase in the central government deficit in 2012, to around 2.0% of GDP. The funds needed to finance this greater deficit would come from further issuance of debt on external markets in the amount of US$500 million in 2012 and a drawdown of savings in the FEES of around US$2.3 billion. In addition, Chile could access new loans from the IDB, which would allow it to issue less debt on external markets and/or make less use of FEES funds. Even under the risk scenario, then, Chile would be able to cover its financing needs for the next five years.

OVE COUNTRY PROGRAM EVALUATION AND RECOMMENDATIONS

The strategy incorporates the OVE recommendations that Management deems relevant for Bank activity in the country.

Recommendations from the Country Program Evaluation	Incorporation into the Bank's Strategy with Chile 2011-2014
Recommendation 1: Pursue actions to preserve and deepen the Bank's value-added to reduce coordination and market failures in public program delivery.	The strategy incorporates this recommendation, building on past years' efforts to have the Country Office play a greater analytical role by enlisting the support of Bank and international experts who participate actively not only in the design of new lending operations but also in technical cooperation, sector advisory services and specific studies. The Bank will also continue to leverage its support by partnering with international and domestic centers of excellence so as to explore and select best practices worldwide, as well as fostering interagency coordination to address the challenges the country has proposed as strategic for the period.
Recommendation 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.	The Bank will be alert to needed and feasible adaptations to its legal framework in order to ensure that it has a greater impact on the challenges facing the country. However, it must be recognized that the Bank's contribution in Chile is based primarily on value added, which demands a series of actions that require a high degree of flexibility on the Bank's part.
Recommendation 3: Pursue the creation of a knowledge finance vehicle for Chile not associated with loans, as a separate Bank product.	Although there are no plans to create a new fund specifically for financing research, this recommendation has in fact been addressed since 2000 by the reimbursable Special Technical Advisory Program (PSA). This objective will be complemented with the priority assigned to financing Knowledge and Capacity Building Products (KCP) and coordination with other nonreimbursable or reimbursable financing sources for high-level research in areas identified as priorities in the 2011-2014 country strategy.
Recommendation 4: Improve portfolio continuity risk management, acting on issues and in areas where there are legitimated long-term consensuses.	Ongoing dialogue has been established with the national authorities to identify a realistic work plan between the Bank and the country, highlighting the areas where the IDB offers significant value added for addressing the country's challenges.
Recommendation 5: Explicitly map out in the country strategy a complementary finance strategy and a system for engagement with the private sector based in the Country Office, 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	The strategy incorporates this recommendation: a portion of Bank interventions in the country will be targeted at providing support and boosting productivity for MSMEs through innovation and better access to financial markets.

DONOR COORDINATION

The relatively high level of development that Chile has achieved on a regional scale in recent years, its solid fiscal position and low debt levels, and its ready access to domestic and international capital markets explain the limited number of multilateral and bilateral cooperation agencies with operations and offices in the country, and their modest contributions to project financing in terms of the total national budget. In this context, the activities of some agencies such as ECLAC and the United Nation's ILO, although based in Santiago, are of regional rather than local scope. On the other hand, institutions such as the German KfW are financing some operations in Chile from regional offices in neighboring countries. At the same time, bilateral agencies such as JICA, GTZ and AECID, as well as cooperation offices of some embassies accredited to Chile, provide specific support through voluntary programs and the fielding of experts in addition to funding specific projects or grants.

Consequently, in contrast to other borrowing countries of the Bank where there are established coordination mechanisms, there is no formal arrangement among international cooperation agencies in Chile for harmonizing and creating synergies in their activities or for serving as a channel of dialogue with the government for keeping those activities in line with its priorities. Leadership in coordinating the work of international cooperation agencies in Chile is exercised directly by the Budget Directorate (DIPRES) of the Ministry of Finance, which is the official counterpart representing the Republic of Chile as borrower (in the case of loans) or as beneficiary (in the case of grants), submitting specific applications for project financing and no-objection bilaterally with the various cooperation agencies, case by case.

Nevertheless, the Delegation of the European Commission in Chile has invited the international cooperation agencies and embassies to meetings to exchange information on their activities in the country. The Bank has been participating in these information meetings, which have been held semiannually or annually. It must be recognized, however, that the institutional coordination that occurs in these meetings takes place through the exchange of information and not to cofinancing of programs for specific projects. In this context, the Bank has been able, for example, to work in close collaboration with the World Bank in developing the updated version of the Government Financial Management System, with JICA on issues relating to the earthquake emergency, and with AECID in the water and sanitation sector.

DEVELOPMENT EFFECTIVENESS MATRIX

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Executive Directors approved the Development Effectiveness Framework (document GN-2489) to increase the evaluability of all Bank development products.

The Development Effectiveness Matrix for Country Strategies is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."

Country Strategy: Chile 2011-2015

STRATEGIC ALIGNMENT: Measures two dimensions: (i) the extent to which the objectives of the strategy are consistent with the country's development challenges and with the government's priorities and plans; and (ii) use of a mix of products (financial, knowledge, technical assistance) to attain the objectives, and identification of other cooperation agencies and their areas of action.

Consistency of strategic objectives: The strategy identifies the following areas of work: (i) Labor Markets; (ii) Climate Change; (iii) Transport and Road Safety; (iv) Innovation, Science and Technology; (v) Public Sector Management; (vi) Trade and Integration. All of the areas selected address development challenges and are consistent with the priorities established by the Government of Chile in its government program. Moreover, the areas of work selected are the result of dialogue between the country and the Bank.

Mix of products and participation by other donors. The strategy proposes to use different Bank instruments such as sovereign-guaranteed operations, NSG operations, and technical cooperation. The strategy takes into account coordination with and interventions by other multilateral donors such as the World Bank, JICA, GTZ, KfW, among others.

EFFECTIVENESS: (This measures whether the country strategy is likely to achieve its intended objectives, through an examination of four dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems; and (iv) the analysis of the lending framework:

Effectiveness dimensions	
I. Sector diagnostics	
- Sector diagnostics (includes an analysis of the entire sector)	100
- Diagnostic targeting the proposed areas of intervention	-
- Identifies the main problems based on empirical evidence	88
- Identifies the main beneficiaries	100
- Identifies and measures the factors that contribute to the problems identified	88
- Presents the policy framework and a sequence for Bank interventions	100
- The diagnostic corresponds to the objectives presented in the strategy	100
II. Results matrix	
- Expected outcomes are clearly defined	100
- Indicators are outcome indicators and are SMART	80
- Indicators have baselines	100

Eight sector notes supporting the strategy were presented. All the notes have been validated.

-88% of the notes clearly identify the main sector problems based on empirical evidence.

-100% of the notes identify the potential beneficiaries in each area of intervention.

-88% of the notes identify or measure the factors that contribute to the problems identified.

-100% of the notes identify the policy framework and a sequence for Bank actions.

-In 100% of the notes the subjects dealt with are consistent with the Bank's strategic objectives.

Results matrix: the results matrix contains 15 strategic objectives for Bank action and 27 indicators to measure progress toward the proposed objectives.

- 100% of the strategic objectives clearly identify expected outcomes.
- 80% of the indicators used are outcome indicators and are SMART.
- 100% of the indicators have baselines.

Country systems: there are diagnostics for all financial management and procurement subsystems. Steps will be taken to strengthen all financial management subsystems and competitive bidding systems. The financial management and control systems will be used during the life of the strategy, as well as the budget, treasury and external control subsystems. With respect to procurement, advanced use of Chile's country procurement system is proposed in operations financed by the Bank.

Lending framework: the strategy contains an analysis of the country's financing requirements and provides an estimate of the amount required from the Bank. The analysis confirms that multilateral financing will be a relatively small source but a strategic one for the development of key sectors of the economy.

RISKS: This measures three dimensions: (i) identification of factors that affect or might affect attainment of the proposed objectives, (ii) definition of mitigation measures, and (iii) monitoring mechanisms:

The strategy identifies the risks associated with Bank participation in each of the strategic sectors and defines mitigation measures. It also identifies macroeconomic risks, which will be monitored during the life of the strategy.