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CHILE

**IDB GROUP COUNTRY STRATEGY WITH CHILE
2022–2026**

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ABBREVIATIONS

CASEN	Encuesta de Caracterización Socioeconómica Nacional [National Socioeconomic Survey]
CDC	Country Development Challenges
DIPRES	Dirección de Presupuestos [Budget Office]
IMF	International Monetary Fund
INE	National Statistics Institute
IPSAS	International Public Sector Accounting Standards
MCTCI	Ministry of Science, Technology, Knowledge, and Innovation
MINSAL	Ministry of Health
MSMEs	Micro, small, and medium-sized enterprises
NCB	National competitive bidding
OECD	Organisation for Economic Co-operation and Development
SMEs	Small and medium-sized enterprises
STEM	Science, technology, engineering, and mathematics
SUBTEL	Office of the Deputy Secretary for Telecommunications
WEO	World Economic Outlook

EXECUTIVE SUMMARY

<p>Economic and social context</p>	<p>In the 2019-2022 period marked by the crisis caused by the COVID-19 pandemic and the subsequent economic recovery, Chile's GDP growth averaged 6.5%. This occurred against a backdrop of great uncertainty in the country, with mass protests in which Chileans took to the streets in 2019 to call for more social justice, which culminated in the institutional solution of a constitutional process to draft a new constitution. To address the social unrest and COVID-19, the government sharply increased public spending, and as a result, in 2019 and 2020 the fiscal deficit reached 2.8% and 7.3% of GDP, respectively. The continuation of this economic support through 2021 brought the fiscal deficit to 7.6% of GDP that year. By 2022, there was a noteworthy fiscal consolidation, achieving a surplus in the third quarter of this year.</p>
<p>The IDB Group in Chile</p>	<p>The IDB Group's Country Strategy with Chile for the 2019-2022 period sought to support the government's efforts to resume a path of economic growth and improve quality of life for a growing middle class and population groups that remain vulnerable. The strategic approach rested on two pillars: (i) stronger investment and enhanced productivity; and (ii) improved quality of life for the population. The crosscutting issues of climate change and natural disaster risk management, gender and diversity, and the areas of decentralization, regional integration, and migrations were taken into account in all strategy efforts.</p>
<p>Priority areas</p>	<p>The Country Strategy 2022-2026 will support Chile in building its productive capacities to address future situations, and in promoting the well-being of the population. To that end, the IDB Group will support the country in promoting innovation and productivity, and in building institutional capacities to meet the population's needs, procuring sustainable, inclusive growth. This strategic approach will be based on two pillars: (i) promoting social cohesion and inclusion; and (ii) enabling the economy of the future. Both pillars will address the crosscutting themes of gender, diversity, inclusion, and equity; climate action and sustainability; institutional capacity and the rule of law; regional focus; and digitalization.</p>
<p>Lending framework</p>	<p>The IDB projects a sovereign guaranteed loan scenario of US\$3 billion, in addition to the resources contributed by IDB Invest and IDB Lab for private sector projects. The IDB Group expects to continue to deliver support through national and regional technical-cooperation operations and fee-based advisory services.</p>
<p>Risks</p>	<p>The main risks to strategy implementation are: (i) macroeconomic, associated with possible deterioration in the external context that would hinder progress on fiscal consolidation; (ii) the country's vulnerability to natural disasters; and (iii) the coordination of multiple actors in projects. Migration and monitoring measures are planned.</p>
<p>Effective period of the strategy</p>	<p>The 2022-2026 IDB Group Country strategy with Chile will be in effect from the date of its approval until 30 March 2026.</p>

I. COUNTRY CONTEXT

- 1.1 **After decades of strong but gradually slowing economic progress, Chile saw mass protests in 2019 that called for greater social justice.** The economy's growth rate slowed over the past decade, falling from 3.8% in the 2000-2019 period to only 2% in 2015-2019. Stagnant productivity, stakeholders' low expectations, and the low price of copper all played a role, as did the violent protests in October 2019 that paralyzed part of the country and triggered a state of emergency. The country's GDP grew 4% in 2018, but only 1% in 2019. The demonstrations, with a historic 1.2 million participants, made multiple social demands and denounced the high cost of living and perceived inequality.
- 1.2 **A constitutional reform (in process) and social measures¹ helped ease the conflict.** In a historic referendum held in October 2020, 78% of Chileans voted in favor of changing the existing constitution and 79% opted for it to be written in a new constitutional convention made up of members specially elected for that purpose. The constitutional convention—consisting of 155 members with gender parity and significant participation not from traditional parties, and with reserved seats for native peoples—delivered its proposed new constitution to the President of Chile, Gabriel Boric, the National Congress, and the Judiciary on 4 July 2022. In the subsequent 4 September 2022 referendum,² 62% of Chileans rejected this draft. The constitutional process is therefore still ongoing, and Congress and the government are currently discussing the new roadmap for drafting the Magna Carta.
- 1.3 **Timely and rapid policy responses prevented the collapse of the health system and excessive economic regression from the COVID-19 pandemic.** Chile coped with the pandemic by centralizing management of hospital beds, implementing dynamic quarantines, injecting liquidity into the private sector, and providing economic support for families, all of which led to a 5.8% contraction of GDP in 2020. The immunization of over 90% of the adult population, fiscal efforts worth over 10% of GDP, and the withdrawal of more than US\$50 billion from individual social security accounts (15% of GDP), brought GDP growth to 12% in 2021 according to the Central Bank, returning the country's economic activity back to pre-protest levels. However, by year-end 2021, annual inflation was up to 7.2%, which forced the Central Bank to raise the monetary policy rate to 4% in December 2021.
- 1.4 **The expenditure allocated to responding to the social demands and the pandemic has worsened the country's fiscal outlook.** Chile's structural balance fiscal rule allowed it to accumulate assets to deploy a strong countercyclical policy during the 2009 financial crisis, but multiple deviations from the target since then drove public debt up from 8.6% to 25.6% of GDP between 2010 and 2018. The prior administration sought to stabilize gross debt at under 30% of GDP. Even so, according to official forecasts, it will reach 40% of GDP around 2024 due to the recent social conflict and COVID-19 pandemic episodes. In 2008, net public debt

¹ The social measures included: a freeze on electricity and transportation prices; guaranteed minimum income for workers; increased basic pensions; a more progressive tax scale; redistribution of resources from higher-income municipalities to poor ones; reductions in the high salaries paid to authorities; and measures to lower healthcare costs.

² Voting was compulsory for people older than 18 and voluntary for 16- and 17-year-olds; a historic 13 million people participated.

fell to a minimum of -19% of GDP,³ but by 2020 it was up to 13.4% of GDP. The price of copper, expected to average US\$4/lb for 2022, will help decompress fiscal finance, since it accounts for between 15% and 25% of total revenue.

- 1.5 **Weak economic activity is forecasted, with high financing costs in a context of uncertainty.** The Central Bank projects 2% and 0.5% GDP growth for 2022 and 2023, respectively, with a contraction of investment (-2.2%-0%). This can be partially explained by, first, the climate of uncertainty surrounding the constitutional process and the social reforms. Second, the liquidation of public and private assets has driven long-term interest rates to historically high levels, adversely affecting investment project financing and the housing market.
- 1.6 **Inflation in Chile has reached its highest level of the past few decades.** The principal factor driving rising inflation is the surge in demand that occurred in 2021. However, in the past few months, the impact of high cost pressures worldwide has intensified, due to higher commodity prices (energy and food) resulting from the Russian war against Ukraine. The increase in food prices, in turn, is having a direct impact on the population's food security. Meanwhile, global supply chain issues persist, the peso remains depreciated, and the output gap is still positive. The high inflation and dogged persistence of its main drivers call for a more contractionary monetary policy to achieve convergence, and for these reasons, the Central Bank Council decided to raise the monetary policy rate to more appropriate levels.
- 1.7 **Chile's economic development has been primarily commodity-intensive, but this growth strategy is now exhausted.** Chile adopted a liberal model that allowed it to increase average real wages more than the region did, but it did so by concentrating its exports relatively more than counterpart countries with similar per capita incomes,⁴ threatening the emergence of new firms and sectors. Exports are concentrated in several large companies present in only a few regions of the country, a situation that is exacerbated by weak territorial integration. Despite the country's achievements, challenges remain, like the lack of export diversification and poor productivity.
- 1.8 **Low productivity continues to hinder sustained growth.** Total factor productivity only contributed 0.3% to GDP growth in the first decade of the century, and practically nothing in the current decade (despite having contributed 2.3% in the 1990s), expanding the per-worker labor productivity gap with the OECD countries.⁵ Although almost all productive sectors are affected by the issue of low productivity, the mining sector is the worst offender.⁶ Other factors underlying the decline in productivity include: the configuration of the private sector; scant spending on research and development (0.35% of GDP, slightly more than the Latin America and the Caribbean average, but far from the OECD average of 2%);

³ Due to the global recession caused by the subprime crisis. The fall in the price of copper produced a severe deficit in the current account of the balance of payments, doing away with the fiscal surplus that had been generated in the past few years with implementation of the fiscal balance rule.

⁴ Country Development Challenges (CDC), 2021.

⁵ According to OECD data, in 2010, Chilean workers produced 57% of the output of workers in the median OECD country, and by 2019, they only produced 54%.

⁶ A reaction to the commodity supercycle led the country to prioritize production over efficiency in mining (nearly 15% of GDP).

insufficiently skilled human capital to meet labor market needs; and education and healthcare systems with persistent quality problems.

- 1.9 **Although Chile's social indicators are notable, the levels of inequality have grown as a result of the pandemic, as did other vulnerabilities.** Chile sports the highest per capita income (US\$13,321 in 2020) and human development index (0.85) in Latin America, although it is still far from OECD values (US\$45,181 and 0.9, respectively). Notwithstanding this improvement, the pandemic has reversed the declines in poverty⁷ and inequality observed at the end of the 2010s.⁸ In 2020, the country posted the second highest Gini index in the OECD (0.46) after Costa Rica (0.5),⁹ almost the same result as a decade earlier; according to official data, extreme poverty grew from 2.3% in 2017 to 4.3% in 2020; and the number of families living in informal urban settlements reached its highest point since 1996,¹⁰ with 81,000 families living in 969 settlements.¹¹ Furthermore, the homicide rate went up to 3.8 per 100,000 inhabitants (the OECD average not including Mexico or Colombia was 1.5 in 2018), and the losses in child¹² and academic development¹³ were compounded.
- 1.10 **Social capital has deteriorated in Chile, especially with regard to trust.** Of the five elements of social capital in the Legatum Prosperity Index, institutional trust is the one on which Chile is comparatively furthest behind (165th out of 167). Various cases of corruption that ended in minimal sentences and reparations according to international standards have created a climate of mistrust; both the perception that laws are followed and trust in political parties and in the government have drastically declined over the past decade.¹⁴ This lack of trust is not restricted to the public sphere: trust among individuals and in companies has fallen just as much.¹⁵ Likewise, the fact that over the past few years ever more protests have denounced the State's distancing from the provision of education and pensions reinforces the idea that Chileans understand inclusion in part through social rights.
- 1.11 **The lack of justice for women and sexual and gender diversity and identity are a source of social discontent and fragmentation.** Women in Chile are underrepresented in various spheres of society: their workforce participation is

⁷ According to the Economic Survey of Chile (OECD, 2022), poverty has declined significantly in the last 30 years, as had inequality, although to a more modest extent.

⁸ Economic Survey of Chile, OECD, 2022.

⁹ OECD statistics.

¹⁰ The National Registry of Precarious Settlements drawn up by the Ministry of Housing and Urban Development and the University of Chile Housing Institute in 1996 recognized the existence of 972 settlements with 104,808 families.

¹¹ Techo and Fundación para la Vivienda 2021.

¹² The developmental setbacks observed in Chile during the pandemic resemble the existing gaps between children whose mothers have a university degree and children whose mothers do not (Abuthele, Bravo, Lopez Boo, and Soto 2021).

¹³ Taking into account the heterogeneity of access to and the offering and quality of online classes, learning losses due to the school closures for half of 2020 are estimated at 50% for the first quintile and only 15% in the fifth, according to the Ministry of Education.

¹⁴ The perception that "many" laws are followed fell from 48% to 30% (Latinobarómetro), while trust in government dropped from 50% to 18% (OECD) and in parties, from 13% to 2% (Centro de Estudios Públicos).

¹⁵ Interpersonal trust (trust in others) shrank from 23% to 13% (Our World in Data) and trust in companies from 28% to 7% (Centro de Estudios Públicos).

21.3 percentage points lower than men's;¹⁶ they earn an average of 27% less;¹⁷ and they hold only 26% of private-sector board of director, management, and assistant management positions.¹⁸ Moreover, gender-based violence is a widespread problem: 21.7% of women ages 15 to 65 state they have suffered some type of violence (physical, psychological, or sexual) in the past 12 months. Moreover, 41.4% indicate having suffered some type of violence in their lifetime, showing a statistically significant increase with respect to the level posted in 2017 (38.2%).¹⁹ Likewise, individuals who fall outside gender and sexual norms have faced social discrimination and violence at public and private institutions, although the scale of the problem is generally unknown, due to the lack of an institutional will, both public and private, to gather official information and implement actions. Currently, the INE is working to construct and standardize variables to collect data on the outlook.

- 1.12 **Chile is struggling with an indigenous conflict and migration pressures that have intensified in recent years.** The historical demands for recognition by indigenous peoples, and most recently by the Mapuche indigenous population (including for self-determination and the concession of land), plus unresolved economic and coexistence conflicts in the country's southern macrozone, have led to increasing violence, culminating in a state of emergency in October 2021. In Chile, although integration and reparations programs have been implemented, they have been biased towards production and have not fully considered the indigenous demands. Furthermore, the group, which makes up 10% of the population, still faces still racial and social discrimination.²⁰ Chile also faces the challenge of migration. In the past decade, the country has received over 1.5 million immigrants, who now make up 7.5% of the population. Since 2020 and especially during 2021, however, immigrants from Venezuela and Bolivia have entered through unauthorized crossing points, putting pressure on services in the north, in particular healthcare services. This has led to demonstrations and anti-immigrant attitudes among local residents.
- 1.13 **The population and the economy are both highly exposed to natural disasters and water scarcity resulting from climate change.** In the past decade, rainfall deficits ranged from 20% to 50%; experts called this a "mega drought" that would continue to affect the water supply²¹ and would speed up desertification of the country's central zone. Chile should promote land-use planning instruments, as well as infrastructure and technology to ensure the water supply for communities, agriculture, and mining, and to prevent climate-driven migrations and other disruptions for the population. Another consequence of climate change and human intervention in the environment are the increasingly frequent natural disasters. In the first two decades of the 20th century, 100 floods

¹⁶ According to the National Employment Survey for the rolling quarter from November 2021 to January 2022, women (48.3%) continue to participate less than men (69.6%) in the labor market.

¹⁷ Supplementary Income Survey 2018.

¹⁸ National Employment Survey 2019.

¹⁹ National Survey of Domestic Violence and Violence Against Women 2020.

²⁰ According to a 2016 study by the University of Talca, most of the population claims they do not have indigenous ancestry, despite widespread mixing, while 70% think that having a Mapuche last name would be detrimental to their job searches or efforts to get promoted.

²¹ Since Chile is so narrow, its watersheds experience significant seasonal and year-on-year variability in rainfall.

and 11 mudflows were recorded. In the 21st century, there have been 252 and 42, respectively.

- 1.14 **Chile is facing the two-fold challenge of generating productivity gains and social cohesion in a context of environmental vulnerability, while needing to improve its institutional and policy frameworks.** The pandemic and the protests revealed deficiencies in the government's executive and institutional capacities, insofar as the country did not have any risk monitoring tools in place that would have enabled it to provide a timely policy response. The use of technological tools and executive and governance good practices should be at the heart of any improvement. Likewise, the economic growth needed to increase the tax revenue and expand the public services demanded by Chileans to a large extent depends on the State's capacity to foster productive development without stifling it in the process. In 2019, Chile had the most complex regulatory system in the OECD, with one of the most adverse impacts on competition. World Economic Forum surveys show that inefficient government bureaucracy is the second most problematic factor for doing business in Chile, surpassed only by labor regulation, and followed by insufficient human capital and taxes.
- 1.15 **The government's strategic vision is set out in its 2022-2026 program *Propuestas Programáticas para el nuevo Chile* [Programmatic Proposals for the new Chile], which includes the following elements and crosscutting pillars:** (i) address the consequences of the health emergency and economic recovery; (ii) advance an agenda of universal social rights, financed through ambitious, progressive tax reform; (iii) transform the productive matrix to make it more sustainable and innovative; (iv) strengthen democracy, by redistributing power through various levels. The country will pursue these objectives considering the following crosscutting pillars in all its policies: (a) decentralization; (b) gender parity and recognition of sexual diversity; (c) care for the environment; and (d) dignity in labor matters.

II. THE IDB GROUP IN CHILE

- 2.1 **The IDB Group Country Strategy with Chile 2019-2022.** The IDB Group Country Strategy with Chile 2019-2022 sought to support the government's efforts to resume a path of economic growth and improve quality of life for a growing middle class and population groups that remain vulnerable. The strategic approach rested on two pillars: (i) stronger investment and enhanced productivity; and (ii) improved quality of life for the population. The crosscutting issues of climate change and natural disaster risk management, gender, and diversity, as well as the areas of decentralization, regional and electric integration,²² and migrations, were considered in all strategy efforts.
- 2.2 Under this strategy, the IDB Group approved 12 sovereign guaranteed loans for a total of US\$1.968 billion. In all, 74% of these approvals were programmatic policy-based loans, totaling US\$1.45 billion, mainly to support social equity and fiscal sustainability reforms, the energy transition, science and technology, sustainable

²² Chile plays major roles in the Andean Electrical Interconnection System (SINEA) and the Southern Cone Energy Integration System (SIESUR). The IDB Group serves as the technical secretariat for both systems, facilitating dialogue with all sector institutions and companies in the Andean and Southern Cone countries. It also finances studies through technical cooperation operations.

investment projects, digital transformation, and transparency and probity. The remainder (26%) were investment loans totaling US\$518 million. Most of the operations were prepared across sectors, and two operations combined instruments: one, a reform program with a results-based program, and the other, a results-based program with a grant from the migrations initiative.

Table 1. Operations and approved amounts by strategy pillar²³

	Number of operations and total amount	Stronger investment and enhanced productivity	Improved quality of life for the population	Not aligned
IDB (loans)	12 – US\$1.968 billion	US\$750 million	US\$1.168 billion	US\$50 million
IDB (technical cooperation operations)	44 – US\$14.23 million	US\$7.02 million	US\$6.05 million	US\$1.05 million
IDB (fee for service)	9 – US\$2.49 million	US\$990,000	US\$590,000	US\$910,000
IDB Invest	41 – US\$2,642.79 million	US\$2,386.29 million	US\$240 million	US\$16.5 million
IDB Lab	15 – US\$9.45 million	US\$5.61 million	US\$940,000	US\$2.9 million

- 2.3 In line with the pillars of the 2019-2022 Country Strategy, loan approvals were distributed as follows: three operations for a total of US\$400 million (20%) contributed to the first pillar (stronger investment and enhanced productivity), mainly for reforms for the fair, clean, and sustainable energy transition; and five operations for a total of US\$1.018 billion (51%) contributed exclusively to the second pillar (improved quality of life for the population), for reforms in the areas of social equity and fiscal sustainability, integrity and transparency, public safety management, and investments in urban integration of settlements and vulnerable neighborhoods. Lastly, three operations for a total of US\$500 million (25%) contributed to both pillars, promoting the digital transformation, sustainable growth, and sustainable investment project management. Only 3% of the portfolio was not aligned with the Country Strategy.
- 2.4 Approvals of non-sovereign guaranteed loans reached US\$2,642.79 million, for 41 operations, mainly (90.3%) focused on the strategic pillar of stronger investment and enhanced productivity. The principal sectors supported were infrastructure and energy and financial markets (financing of MSMEs and financial inclusion). Substantial synergies were developed among sovereign guaranteed and non-sovereign guaranteed projects, especially in financial inclusion and the energy sector.
- 2.5 Furthermore, 44 nonreimbursable technical-cooperation operations were approved for a total of US\$14.23 million. These resources were used to support loan operations, as well as to help maintain the IDB Group presence in the dialogue areas and crosscutting pillars identified in the strategy. The country also benefited from multiple regional technical-cooperation operations, which

²³ Data as of 31 October 2022.

transferred knowledge and good practices generated in Chile to the rest of the region. IDB Lab approved 15 projects for a total of US\$9.4 million (nine technical-cooperation operations, one contingent-recovery technical-cooperation operation, and five loans). In the 2019-2022 period the IDB Lab operations were mainly aligned with the objective of strengthening private investment and enhancing productivity. Of note are public-private cooperation initiatives on matters such as employability, digital transformation of smaller companies, and smart cities. Moreover, in line with the strategic objective of improving quality of life for the population, during the period IDB Lab provided direct financing to innovative companies that are facilitating access to financing for the migrant population, improving quality and opportunity in the execution of social housing projects, improving the quality of school learning, etc.

- 2.6 Six fee-based advisory services operations were also carried out for a total of US\$1.2 million. Through these projects, the IDB Group provided advisory support for the sustainable development plan and a monitoring system for Rapa Nui (Easter Island); regulatory review of strategic sectors and regulatory impact methodology; definition of minimum standards for metropolitan areas; development of a meso-territorial management model for the sustainable development of the Lake Llanquihue basin; preparation of a roadmap for the National Public Investment System; and preparation of the monitoring and evaluation plan for social benefits administrators. This latter project was developed jointly by IDB Invest and the IDB, and its beneficiary was the private sector.

A. Main results of the IDB Group Country Strategy with Chile 2019-2022

- 2.7 During the strategy period, the IDB Group accounted for 94.5% of multilateral debt, in a context of favorable access to international financial markets. The main results are summarized below.

- 2.8 **Energy transition.** The IDB Group continued to support Chile in its energy transition and in its commitments to reach carbon neutrality in 2050 and increase the percentage of renewables in the energy matrix to 70%. To address these challenges, the IDB Group approved a programmatic policy-based loan series made up of loan operation CH-L1159 for US\$50 million, disbursed in 2021, and loan operation CH-L1165 for US\$300 million, approved in 2022 and expected to be disbursed in 2022-2023. This programmatic series supported policy actions designed to improve the regulatory framework in order to modernize the sector and guarantee affordable electricity service with clean generation; phase out coal-fired power plants and increase the flexibility of the grid to incorporate more renewables; and implement a framework that enables and drives innovation and new technologies, especially electromobility and green hydrogen in Chile, viable given the enormous potential in solar and wind-fueled renewable energy. This programmatic policy-based loan series, which contributes to the elimination of 13 million tons of CO₂ equivalent by 2030 (80% of the CH-L1165 loan is climate finance), was combined with five technical-cooperation operations with nonreimbursable resources for approximately US\$2 million (operations CH-T1228, CH-T1230, CH-T1235, CH-T1253, and CH-T1274) to support technical works and studies related to the policy measures. On top of this, IDB Invest operations were able to reduce CO₂ emissions by over 1 million tons (transactions 12995-01,

12380-02, and 11620-02). The partnership with ENGIE Energía Chile²⁴ deserves special mention as the first pilot in the world to monetize the cost of decarbonization through a financial package of US\$125 million for the building, operation, and maintenance of wind power infrastructure; the agreement's innovation lies in the structuring of a pilot financial instrument to accelerate decarbonization activities in Chile, by monetizing the displacement of greenhouse gas emissions by closing carbon-fired plants early and replacing them with clean technology projects. This model is expected to be replicated in Chile and in the rest of Latin America, to speed up the region's energy decarbonization.²⁵

2.9 Innovation and competitiveness. In 2018, Chile decided to strengthen its innovation policies with a new Ministry of Science, Technology, Knowledge, and Innovation (MCTCI). Drawing on similar experiences in Argentina, Uruguay, and Costa Rica, the IDB Group supported this process through a policy-based loan (operation CH-L1148) for US\$50 million, approved in 2019. This operation, in addition to strengthening the legal and institutional framework, also helped establish mechanisms for monitoring and evaluating policies. The IDB Group also implemented a technical-cooperation operation for US\$300,000 (operation CH-T1229) to finance development of the MCTCI gender strategy, among other initiatives, and provided support for improving processes and regulations for the approval of large investment projects. The policy-based loan operation CH-L1145, for US\$100 million, supported the establishment of the Sustainable Projects Management Office at the Ministry of Economy, Development, and Tourism, and the centralization of activities at this Office facilitated interaction with investors and improved processing, which was reflected in the World Economic Forum indicator of obstacles perceived by companies to meeting the requirements of the public administration. The IDB Group also supported this policy-based loan with technical-cooperation funding, through operation CH-T1214 for US\$500,000, to finance the SUPER platform, which digitalized many of the procedures involved in processing investment projects.

2.10 Digital transformation and sustainable growth. In late 2021, the IDB Group approved an operation that in addition to its multisector approach combined two financial instruments for the first time: a programmatic policy-based loan and a loan based on results (loans 5450/OC-CH and 5451/OC-CH for US\$400 million). The combination of these instruments is making it possible to work simultaneously on public policy and social and productive impact investment actions to maximize program benefits. This hybrid program is designed to drive gains in Chile's competitiveness in a way that promotes sustainable and inclusive growth, through specific actions for the following tasks: (i) accelerating the digital transformation of public services and digital connectivity; (ii) promoting the transition toward circular production and consumption models; and (iii) promoting the recovery and formalization of jobs by supporting micro and small enterprises (MSEs) and incentivizing hiring and labor intermediation, with a particular emphasis on women. In turn, the IDB Invest operations (i) supported the creation of 4,209 formal jobs (transactions 12111-01, CH-L1102, 12995-01, and 12491-01); (ii) accelerated the

²⁴ This partnership with the private sector is notable because it is the first operation to monetize the cost of decarbonization together with the liquidity financing facility to stabilize electricity prices (Regulated Client Stabilized Price Law I).

²⁵ IDB Group Partnership Report (2021), available at: [2021 Partnership Report: Partnerships with a Vision | Publications \(iadb.org\)](#).

adoption of smartphones, by defraying the their upfront cost for populations in lower income quintiles, and promoted innovative financing structures in the telecommunications industry (transaction 12491-01); and (iii) expanded access to financing for almost 5,000 micro and small enterprises (transactions 12872-01, 12276-02, 12090-02, 12093-01, 12343-01, and CH2962A-04).

- 2.11 The intervention entailed coordination among the Office of the Deputy Secretary for Telecommunications (SUBTEL), the Ministry of the Environment, the Ministry of Labor and Social Welfare, and the Treasury of the Republic, under the leadership of the Ministry of Finance Budget Office (DIPRES), acting as execution unit.²⁶ This program made it possible to design and implement a connectivity pilot using TV white spaces technology in rural areas, as well as to perform feasibility studies to establish the country's infrastructure gap, with social and productive objectives. The program also provided support for preparing feasibility studies for the deployment of the Humboldt submarine cable that will connect Chile and Asia. With regard to the circular economy, the technical cooperation funding supports implementation of the Recycling Fund and the National Organic Waste Management Strategy. The following activities are being financed in 2022: (i) implementation of a platform to monitor the Recycling Fund; (ii) support for implementation of infrastructure projects (e.g., composting plants) at the municipal level; and (iii) development of the preliminary sample for validating the theoretical organic waste baseline.²⁷
- 2.12 **Social equity and fiscal sustainability.** In response to the social crisis that began in October 2019, followed by the COVID-19 pandemic that started in March 2020, the IDB Group supported the Government of Chile through a programmatic policy-based loan series (operations 5059/OC-CH in 2020 and 5302/OC-CH in 2021, for a total of US\$800 million) designed to improve social equity while at the same time ensuring fiscal sustainability. To that end, the operations supported measures to raise the incomes of the most vulnerable, improve the adequacy of the solidarity pensions, expand access to lower-cost medications, make public spending more efficient, and improve the quality of the budget-formulation process. The programmatic series combined short-term measures like cash transfers and adjustments to the flexibility of the unemployment insurance system to respond to the health crisis's impact on employment, with medium- and long-term measures like improvements in expenditure quality and formulation and in job placement services that have contributed to the post-pandemic recovery of employment, and a decrease in the high out-of-pocket health care expenses, through access to lower-cost medications. This operation consolidated the support that the IDB Group has been providing and continues to provide through specific technical-cooperation operations for Chile and the region, on job searches and placement (operation ATN/OC-18060-CH; [SEALC network](#)); pensions ([PLAC network](#)), public procurement (operation ATN/AA-16486-RG), health (operation ATN/OC-18088-CH; [CRITERIA network](#)); and improved public spending efficiency and quality (operation ATN/OC-18383-CH).

²⁶ The country received technical cooperation funds to support this program (operations ATN/KK-17731-CH, ATN/MA-19263-CH, ATN/OC-19262-CH, and ATN/OC-18985-CH).

²⁷ Given the innovative nature of this program, some of the technical cooperation funds will be allocated to supporting execution out of DIPRES, with the aim of contributing to knowledge generation on the execution of results-based programs and to the evaluation of some of the projects.

- 2.13 **Probity and transparency.** Putting into practice the lessons learned during the implementation, from 2015 to 2017, of the Probity and Transparency Agenda Support Program (US\$230 million), the IDB Group continued to support the Government of Chile, with a programmatic series for Strengthening Chile's Integrity and Transparency Systems. A first operation approved in 2021 for US\$50 million provided support for the Ministry and General Secretariat for the Office of the President, DIPRES, ChileCompra, the Financial Intelligence Unit, and the National Civil Service Bureau, among other public agencies, in improving access to public information and adherence to the principle of administrative integrity, and strengthening the financial transparency framework. Likewise, technical cooperation resources were used to support dissemination of the Fifth National Open Government Action Plan and the update to the platform for the law governing lobbying activity to the Council for Transparency in courses on access to public information with a gender approach, and ChileCompra in improving its open data portal, among other activities. The IDB Group also financed a book that gives an account of the mainstreaming of transparency and integrity policies of the past 30 years.
- 2.14 **Citizen security and justice.** The IDB Group continues to provide support for enhancing a comprehensive and preventive public safety approach in view of the growing challenge of improving citizen security. Through a combination of interventions that include the Program to Strengthen the Strategic Management of Public Security in Chile (operation CH-L1142) for US\$48 million and technical cooperation funding (operation CH-T1206) for US\$250,000, the IDB Group is helping to modernize and reform the Carabineros (Chile's preventive police force) and Investigative Police to improve their performances in their respective roles and to bring them closer to the communities where they work, as well as to help reduce violent robberies and improve Chile's capacity to manage cyber incidents and cybercrime. In turn, the technical-cooperation operations CH-T1215 (US\$250,000) and CH-T1164 (US\$300,000) are improving management of cyber incidents and promoted social rehabilitation and reinsertion programs to prevent criminal recidivism in vulnerable populations like women and young people.
- 2.15 **Housing.** The IDB Group is supporting the Ministry of Housing and Urban Development through a loan based on results (operation CH-L1163–CH-J0001), whose objective is to help reduce the number of Chilean and migrant households living in informal settlements, known in Chile as *campamentos*. The program combines a US\$100 million loan and a US\$20 million grant. The main outputs include: (i) a biannual national *campamento* cadastral survey using new technologies that help identify risks related to disasters and vulnerable populations; (ii) a mechanism to strategically prioritize areas susceptible to occupation in the form of *campamentos*; (iii) primary habitability and enabling infrastructure solutions to obtain sustainable eco-efficient living solutions; (iv) socio-urban inclusion assessments, with systematic inclusion of climate, gender, diversity, and migration criteria; and (v) socio-urban inclusion plans and cross-sector incentives by neighborhood. The program is supplemented with approximately US\$1 million in technical-cooperation funding and incorporates the

crosscutting issues of gender equity and diversity, migration,²⁸ and climate change and environmental sustainability.

- 2.16 **Education.** Through the loan based on results CH-L1081 for US\$50 million, the IDB Group supported the process of designing and implementing the new institutional structure of the public education system, which was approved by Law 21,040. The results were focused on improving and professionalizing the local management of education, thereby helping to institutionalize the Public Education Office and 11 local education services. The operation also supported the development and monitoring of management tools (national public education strategy, management agreements for the local services directors, local strategic plans, and pedagogical technical support plans), which were successfully implemented. In addition, the IDB Group provided technical assistance in the policy design and implementation stages, through various technical-cooperation operations. This assistance included: comparative case studies of local education management; an institutional analysis of the Ministry of Education for implementation of the public education policy; a geo-referenced study of shifts in school enrollment; and an organizational structure proposal for the Public Education Office, among other initiatives.
- 2.17 **Gender and diversity.** Through technical-cooperation operations and investment loan components, the IDB Group supported the implementation of policies that foster women's economic and physical autonomy, as well as projects targeting diverse populations (operations CH-T1231, CH-T1198, CH-T1164, CH-T1169, and CH-T1252). With respect to women's economic autonomy, since 2016 the IDB Group has been supporting the government's Gender Parity Initiative, and has reached over 130 companies. The IDB Group is also supporting policies to foster the post-pandemic economic recovery, and is financing actions to support women-led SMEs and women in the workforce. Along the same lines, since 2021 the IDB Group has been providing technical assistance to support implementation of the *Emprender Conectadas* pilot, whose purpose is to train small-scale women entrepreneurs on the digital transformation of their companies; to date, this initiative has benefited over 1,000 women microentrepreneurs in all regions of the country. With regard to physical autonomy, in early 2022 the IDB Group provided technical support for the implementation of two studies designed to improve the use of digital tools and knowledge of their contributions to detecting, preventing, and caring for victims of gender-based violence. With regard to diverse groups, the IDB Group is supporting execution of three studies that explore the effectiveness of policies designed to improve the educational and career paths of persons with disabilities. The results of these studies will help improve the design of programs for this population in Chile. IDB Invest operations, principally transaction 12491-01, strengthened the economic empowerment of 2,726 women through the private sector. In addition, through IDB Lab technical-cooperation operations, the IDB Group supports labor inclusion initiatives for persons with disabilities.
- 2.18 **Health.** The IDB Group has supported strategic initiatives with a high value for the country, through technical cooperation operations and components in health-related loans. It mobilized around US\$1 million in technical cooperation funding (operations CH-T1211, CH-T1248, and CH-T1270) to help improve the provision

²⁸ The cadaster of *campamentos* in Chile was prepared through a technical-cooperation operation financed with Japanese funds.

of healthcare services, first by supporting the design of an information and management system to support persons who are on the public healthcare system waiting list for specialists, procedures, or surgeries, and second by promoting important digital transformation processes in healthcare. Likewise, the IDB Group has sought to help enhance the healthcare network's capacity to provide services with strategies that will improve case management and contribute to the continuity of essential care for priority populations, during and after the emergency caused by the COVID-19 pandemic, with the aim of helping the public health system recover, better respond to the population's demand for care, and provide a better user experience.

- 2.19 **Climate change and sustainability.** The IDB Group supported the organization of the 2019 United Nations Climate Change Conference and the design of the Long-Term Climate Strategy that Chile announced at the Conference of the Parties in Glasgow. Together with the Climate Change Office, the IDB Group carried out studies and workshops for the joint construction of the Long-Term Climate Strategy. It also collaborated in the implementation of the Green Finance committee and in the development of a green taxonomy for the Ministry of Finance and in the launch of the Finance Ministries' Regional Platform for Climate Change. In addition, it supported the national agenda for a circular economy, designs for a resilient water supply (see below) and for cities adapted to climate change, the creation of the Chilean Nature Fund (which will leverage private funds to finance biodiversity conservation), development of the Roadmap for a Circular Chile 2040, and development of the Pacific Alliance Roadmap for the Sustainable Management of Plastics (see below).
- 2.20 **Water and sanitation.** Through Fundación Chile, the IDB Group has supported the second stage of the Water Scenarios 2030 program (operation RG-T3476) to: evaluate the country's legal and institutional framework for water; expand the program to cover the country's 104 watersheds and increase resilience to droughts; and support development of the National Water Security Plan and an action plan for priority watersheds. The IDB Group is also collaborating on the potential implementation of water funds (under operations RG-T2751 and RG-T3177) to set up financial and governance mechanisms that promote public- and private-sector participation in conserving key watersheds.²⁹ It is also supporting Chile's transition to a circular economy. As noted above, the Bank participated in the technical committee that contributed to the design of the Roadmap for a Circular Chile 2040 and supported development of the Pacific Alliance Roadmap for the Sustainable Management of Plastics (operation RG-T3775). It has also been supporting the Ministry of the Environment in promoting inclusive recycling systems through its participation as a partner in the LatitudR platform (operation CH-T1272). Lastly, the Water and Sanitation Division supported execution of the component designed to facilitate the country's transition towards more circular production and consumption models, of the hybrid Digital Transformation and Sustainable Growth Program (programmatic policy-based loan CH-L1164 and loan based on results CH-L1166).

²⁹ The Maipo River Basin Water Fund was created in 2019, to foster the conservation, recovery, and sustainable use of the water sources for the city of Santiago.

2.21 **Transportation.** The IDB Group, through technical-cooperation operations, has supported the government in developing new technological applications for the public transportation system, with an emphasis on improving the user experience (operation CH-T1258). To that end, the actions specifically focus on zones, schedules, and services where the technologies to be tested are more likely to generate significant changes in the quality of service delivered. The IDB Group also provided support to the Ministry of Transportation to improve the transportation systems' regulation, management, and planning instruments through the use of digital data, and to develop the regulation of autonomous vehicles and their Big Data-associated technologies (operation CH-T1220).

B. Status of the portfolio

2.22 The **active portfolio**³⁰ of sovereign guaranteed loans comprises five programs for a total of US\$895 million, of which US\$549.3 million is pending disbursement. IDB Invest has a portfolio of 43 operations, with a total exposure of US\$1.024 billion, in energy, financial markets, science and technology, agriculture and rural development, industry, and transportation. IDB Lab has an active portfolio of 19 projects, for a total of US\$18.7 million, including nine nonreimbursable technical-cooperation operations, three contingent operations, three investment funds, and four loans. These operations are financing projects in autonomous transportation, circular economy, and intelligent aquaculture, as well as the prototyping of innovative solutions in vaccine production and the use of artificial intelligence in the public sector, and the *Locales Conectados* [Connected Establishments] initiative and the Ñam academy.

C. Lessons learned

2.23 The main lessons learned from sovereign guaranteed operations are: (i) in a favorable context with access to international financial markets, the IDB Group's relevance in Chile stems from its ability to provide high-quality specialized knowledge and timely technical assistance; (ii) local counterparts also recognize and appreciate the IDB Group's role as an honest broker and its contribution to the discussion and validation of public policies and good practices, as well as in resolving coordination failures; (iii) advisory services are sought after and valued by counterparts, and offer knowledge of high technical quality for public policy decisions; (iv) the IDB helped raise the profile and ensure the continuity of public policy reforms requiring a long-term approach (e.g., energy, transparency, and probity); (v) the combination of existing instruments (programmatic policy-based loans, loans based on results, investment loans, grants, fee for services) and the multisector work helped develop innovative solutions to public policy challenges resulting from the social conflict and the pandemic; and (vi) portfolio management benefited from the implementation of comprehensive tripartite reviews bringing together the executing agencies, the IDB Group, and DIPRES. Furthermore, the strategic objectives were notably aligned with the government's plans for handling the social conflict and pandemic that the country experienced during the strategy period.

2.24 The main lessons learned from non-sovereign guaranteed operations are: (i) the advisory services that made it possible to establish roadmaps for markets, define standards, and pilot projects can be a useful tool for addressing market and

³⁰ According to data from 30 June 2022.

institutional failures, and at the same time can generate positive externalities by creating better conditions for private-sector participation in the development of Chile and other countries in the region; (ii) with respect to financial institutions,³¹ although partner banks typically have strategies for developing or increasing specific credit lines for segments aligned with IDB Invest's interests (e.g., green, social housing, and SME lines), shocks and volatile macroeconomic outlooks can endanger the allocation of resources to these portfolios;³² (iii) development projects executed by the private sector to encourage renewable energies have great potential for reaching their financial and development objectives, especially given appropriate partners, solid business models supported by long-term purchasing agreements, and favorable regulatory climates like the Chilean one; (iv) the IDB Group plays a key role as the bridge between and coordinator of public and private stakeholders; (v) Chilean clients highly value the IDB Lab connections and regional knowledge platform, which provides opportunities for scaling up and replicating the models piloted in the country.

- 2.25 This country strategy takes into account the conclusions made by the Office of Evaluation and Oversight in the Chile 2019-2022 Independent Country Program Review and the lessons from sovereign guaranteed and non-sovereign guaranteed operations. It therefore: (i) focuses on fewer strategic objectives; (ii) includes an ambitious technical assistance and knowledge agenda to leverage a larger lending framework; (iii) uses a combination of instruments to address public and private investment and policy-reform needs; and (iv) provides for flexibility in addressing present and future challenges in which creativity, innovation, and agility remain distinctive elements of the IDB Group response.

III. PRIORITY AREAS

- 3.1 **Strategic focus.** The Country Strategy 2022-2026 will support the country in building its productive capacities to address future circumstances and in promoting the population's well-being. To that end, the IDB Group will support the country in promoting innovation and productivity, and in building institutional capacities to meet the population's needs, procuring sustainable, inclusive growth. This strategic approach will be based on two pillars: (i) promoting social cohesion and inclusion; and (ii) enabling the economy of the future. Both pillars will address the crosscutting themes of natural disasters and climate change, institution-strengthening, and gender and diversity.
- 3.2 This strategic approach is aligned with the: (i) Country Development Challenges document; (ii) strategic objectives established in the 2022-2025 government program *Para vivir mejor* [To live better]; and (iii) findings of the Office of Evaluation and Oversight Independent Country Program Review. The targeted sectors will be served by the existing portfolio, an agenda of knowledge products, advisory services, and technical cooperation projects, as well as new loan operations. The complementary and strategic use of these instruments will make it possible for the IDB Group to work on priority areas more consistently and will ensure closer

³¹ [Development Effectiveness Overview](#), 2022 IDB Group.

³² The civil unrest and the pandemic drove some Chilean banks to revise resource allocation in their portfolios, and although temporary, the target portfolios are slow to recover over time.

coordination among the IDB, IDB Invest, and IDB Lab, promoting synergies across interventions and increasing IDB Group impact.

3.3 Institutional Strategy 2020-2025 and the IDB Lab and IDB Invest Business Plan.

The proposed intervention areas are aligned with the second Update to the Institutional Strategy 2020-2025 (document AB-3190-2), which is aimed at strengthening regional trade integration; promoting the digital economy through policies and new investments; supporting small and medium-sized enterprises as a fundamental tool for recovery; promoting actions to fight climate change; and promoting gender equality and diversity for inclusive growth. The IDB Lab business plan, which aims to spark innovations that will speed up social inclusion and help activate new, more sustainable engines of growth, will foster implementation of this strategy, whose priorities are also aligned with the priority segments of the IDB Invest 2020-2022 Business Plan as regards supporting infrastructure development, strengthening capacities to support the corporate segment, and leveraging resources through the financial system.³³ These strategic areas are also aligned with key aspects of the IDB Invest New Vision and Business Model, for example, taking on more risks, maximizing mobilization while reducing independent financing, and selling some assets in the secondary market to create more room for loans.

3.4 Strategic knowledge agenda and enhanced relevance of IDB Invest and IDB Lab.

The proposed approach considers the challenge the IDB Group faces in ensuring value-added in terms of knowledge, ability to transfer good practices in public policy, and a more active role as an honest broker. The knowledge agenda should integrate IDB, IDB Invest, and IDB Lab initiatives so that interventions respond to the challenges that the country is facing.

A. Social cohesion and inclusion.³⁴

3.5 In recent decades, Chile has seen across-the-board improvement in its social indicators. Extreme poverty dropped from 20% to 2.3% between 1985 and 2017, and total poverty fell from 45% to less than 10% over the same period. Health indicators also improved significantly, and in 2018 life expectancy matched the OECD average of 80 years. In education, schooling went up from 8.1 years to 10.3 between 1990 and 2017, with enrollment near OECD averages at all levels. In 2018, Chile ranked 42nd among the countries with the highest human development indices in the world, with a value of 0.85, similar to countries like Italy (0.88) and Portugal (0.85). Notwithstanding these improvements, Chile remains below OECD averages in almost all quality-of-life aspects; however, the country's success in reducing poverty has resulted in a more empowered middle class that is demanding ever better goods and public services.

3.6 The pandemic caused an unprecedented regression in social matters and economic inclusion. Even though the authorities mobilized over 13% of the country's GDP in economic aid and a similar amount was withdrawn from social security funds, the poverty rate increased for the first time in decades, to 10.8% of the population (and the extreme poverty rate, to 4.3%). Since the crisis disproportionately affected the most vulnerable, the Gini coefficient increased to

³³ Document CII/GA-80-2.

³⁴ The diagnostic assessment of Chile's social cohesion development challenges is reflected in the Country Development Challenges document, specifically Chapter 3, section 3.1.

0.51 in 2020 according to the Ministry of Social Development and the Family (MDSF),³⁵ from 0.49 in 2017. Another effect of the pandemic has been a rise in student absenteeism and the school dropout rate; according to Ministry of Education data, in 2022 the number of students in Chile with serious absenteeism (39% of all students in the education system) was almost double the prepandemic level.³⁶

- 3.7 Despite the country's cumulative progress, the recent protests demonstrate the need to recover a climate of trust and inclusion to enable economic development, especially given the backdrop of political reform. The massive scale of the 2019 protests reflects the many causes driving the erosion of social capital, including: cases of corruption at institutions, economic abuse by the private sector, and more broadly, the lack of economic and social solidarity. The fact that Chileans widely perceive access to education, healthcare, and social security, especially pensions,³⁷ as unfair reinforces the idea that they expect the government to play a larger role in providing them. Although the Gini coefficient dropped almost 10 points between 2000 and 2016, the percentage of the population that came to consider the distribution of income "unfair" or "very unfair" increased by 5.2%, to 93.5%.³⁸ Likewise, inequality in access to effective opportunities for social mobility and economic discrimination against marginalized groups are driving frustration and magnifying the erosion of social cohesion in the country. Over the past decade, the flow of migrants into Chile has increased exponentially. Although early in the decade around 50,000 immigrants entered the country annually, in the past few years more than 300,000 have done so every year.³⁹ According to joint estimates made by the National Statistics Institute (INE) and the National Migration Service, by 2020 there were 1,462,103 resident migrants,⁴⁰ making up 7.8% of the total population. Of them, 800,000 had entered Chile between 2017 and 2020.
- 3.8 Progress on gender issues has been minor when viewed from an international perspective. Chile ranked 57th (of 153 countries) on the 2020 Global Gender Gap Report; 10 years earlier, it was 48th. Women still do not fully participate in the economy: they face larger digital skills divides, lower workforce participation (partially due to their unpaid work as caregivers), lower pensions, and higher levels of poverty, and they remain a minority in the corporate world. Specifically, women's workforce participation is 20 percentage points lower than men's, and the gender wage gap was 20.4% in 2020. With regard to gender violence, 41.4% of women ages 15 to 65 stated that they had suffered some kind of physical, psychological, or sexual violence over the course of their lives,⁴¹ 3 percentage points more than in 2017 (38.3%). During the pandemic, although women made more calls for help, they were unable to file in-person reports, representing a weakness of the system as a whole.

³⁵ Measurement based on the 2020 National Socioeconomic Survey (CASEN), conducted by the MDSF.

³⁶ Serious absenteeism is when students attend class less than 85% of the time they are supposed to, and is the first step towards dropping out.

³⁷ In a 2020 survey by the MDSF, 85% of respondents rejected the idea that it is fair for those who can pay more to have access to better health and education services.

³⁸ IDB sociometer.

³⁹ OECD.

⁴⁰ National Migration Service, 2020.

⁴¹ National Survey of Domestic Violence 2020. Chilean Ministry of Women.

- 3.9 Discrimination against and the lack of consideration towards **diverse** population groups, like indigenous peoples, immigrants, the LGBTQ+ population, and persons with disabilities fragment Chilean society and lead to these groups' reduced access to education, health, and employment, and therefore, to their increased dissatisfaction with their lives and their suboptimal contribution to society. The indigenous population (over 2 million people identify as indigenous⁴²) remains more vulnerable than the rest of Chilean society. The indigenous communities trail other groups by large margins, with less human capital accumulation, lower wages, more limited access to services, and bigger infrastructure gaps in their communities.⁴³ In addition, the poverty rate⁴⁴ for indigenous families, which did drop in 2020, is still 13.2%. Although Chile has promoted integration and reparations policies for the indigenous communities, they are insufficient and biased towards production.
- 3.10 **Social security and care for vulnerable populations.** All told, only 49% of the population contributes to the various individual social protection funds (pensions, health insurance, unemployment insurance).⁴⁵ Although a high-coverage noncontributory pillar is activated when pensions are low, the average replacement rate in Chile is approximately 40%, showing that this redistributive mechanism is therefore insufficient. Healthcare financing also suffers from a low level of solidarity, which means that lower-income workers are less protected, increasing fiscal pressure to offer only minimal benefits. Accordingly, it will be important to continue to make progress on formalizing employment and to improve the social protection system to benefit the most disadvantaged groups. The aging of the population, withdrawals from social security funds, and the scant legitimacy of the pension system make the system reforms and designs a challenging task.⁴⁶ Furthermore, since Chile's population is aging quickly (in 2036, 20% will be over age 65), the construction of care systems, including for elderly dependents, is fundamental.
- 3.11 **Labor markets.** Chile ranks within the lowest third of the OECD in six of the nine labor market outcome categories. The country's poverty rate after taxes (14.2% versus the OECD average of 10%) is particularly striking.⁴⁷ The traditional mechanisms for ensuring sufficient wages are weak; minimum wage in Chile is half the OECD average.⁴⁸ In addition, Chileans' working hours are among the longest in the OECD (1,974 hours worked per year, compared with the OECD average of 1,763 hours), and there is limited flexibility for implementing alternative work schedules.⁴⁹ Furthermore, when compared with the OECD countries, the

⁴² 2017 census.

⁴³ Country Development Challenges Chile 2018.

⁴⁴ This figure is obtained from the CASEN 2020.

⁴⁵ United Nations Development Programme 2021.

⁴⁶ The aging of the population is a fact: in 2015, there were 86 people over age 60 for every 100 younger than 15, while in 1990, there were only 35.4 older people for every 100 minors. Adults over 60 make up 17.6% of the population, and by 2050 they will make up 30%.

⁴⁷ [IDB, operation CH-L1149.](#)

⁴⁸ For 2018, minimum wage in Chile was US\$7,320 purchasing power parity ([IDB-Labor Markets and Social Security Information System](#)), compared to the OECD average of US\$14,517 ([OECD-Stat](#)). In Chile, approximately 800,000 formal workers earn minimum wage.

⁴⁹ OECD.

Chilean workforce is not skilled in working in technology-rich environments, while at the same time it faces one of the largest risks of being automated.⁵⁰

- 3.12 **Health.** The healthy life expectancy⁵¹ for people born in Chile is 69.7 years, which in the region is only surpassed by Costa Rica and Cuba. The country's disease burden is dominated by noncommunicable diseases. Mortality from chronic diseases has risen from 73% to 86% in the past 20 years,⁵² and the burden of these pathologies is expected to increase over the next few years. To overcome these issues, Chile must significantly improve the quality of its health sector management, through operational implementation of the network management and population services improvement model, to shorten the long waiting lists for hospital and specialist care resulting from the health system's operational fragmentation, specialist and infrastructure shortages, and a culture more focused on the offering than on user needs. During the pandemic, the government, through the Ministry of Health (MINSAL) launched network management mechanisms to ensure equality of access to mechanical ventilation from Arica to Punta Arenas, as well as a modern traceability system, which should serve as a foundation to guide the modernization of health care management. An estimated 10% of hospitalizations of chronic patients could be avoided with better primary care. Reinforcing prevention and promoting health in primary care will be key in the current context of aging in the country. Care for the elderly population will be a main contributor to healthcare spending, due to the increase in chronic diseases, occupation of hospital beds, and dependents' unmet needs, which will increase treatment costs. It will also be important to address the behavioral risk factors that play a major role in chronic diseases, especially obesity, smoking, and alcohol consumption,⁵³ which are highly prevalent among the population. Lastly, high out-of-pocket costs and quality issues in the public health system continue to bother Chileans.
- 3.13 **Citizen security.** In 2021, an increase in most crimes was observed compared to 2020, which was marked by the long pandemic quarantine. All told, 16.9% of households and 5.2% of persons were victims of crimes with considerable social significance.⁵⁴ At the same time, the perception of insecurity rose from 84.3% to 86.9%,⁵⁵ while around 62.5% of the population is afraid to walk alone at night,⁵⁶ compared with an average of 30% in OECD countries.⁵⁷ In addition, low conviction rates create a perception of impunity (only 4 of every 10 crimes are reported⁵⁸).

⁵⁰ OECD.

⁵¹ Healthy life expectancy is understood to be the number of years a person can expect to live without illnesses or disabilities.

⁵² According to MINSAL data, in 2017, 27.6% of the country's overall population had suspected high blood pressure, as did 73.3% of people age 65 and older. In turn, 12.3% of the population had suspected diabetes mellitus: 18.3% of 45- to 64-year olds and 30.6% of persons age 65 and older.

⁵³ Chile is among the countries with the highest alcohol consumption in the Americas, it is the country with the highest levels of smoking, and it is among the countries with the least physical activity and highest levels of obesity, according to figures presented by the Observatory on Aging 2021.

⁵⁴ National Urban Survey of Citizen Security, 2021.

⁵⁵ Increase equivalent to 2.6 percentage points according to the 2021 National Survey of Citizen Security conducted by the INE and the Crime Prevention Bureau.

⁵⁶ Idem 2021.

⁵⁷ Country Development Challenges Chile 2021.

⁵⁸ National Urban Survey of Citizen Security, 2021.

Lastly, cybercrime increased around 10.1% in 2021.⁵⁹ Evaluations of most of the institutions tasked with ensuring security and justice in the country have worsened, and institutional trust in the Carabineros varies significantly across regions, where overall 49%⁶⁰ state they have sufficient or considerable trust in the institution. Reducing crime and the perception of insecurity will require improved legitimacy and management capacity at all of the institutions concerned, including more and better use of technological tools to effectively prosecute crime.

- 3.14 **Territorial equality.** Although Chile has traditionally been a centralized country, it is now engaged in a process of political and fiscal decentralization that will lead to a new structure of authority for the regional governments. A decentralized system of government may strengthen cohesion by bringing the government closer to the people, as they elect representatives and participate in public forums. The first challenge is the high concentration of the population in Chilean cities (90%). This is reflected in the stagnation of the multidimensional poverty rate at 20%, which reveals deficits in the services available in the territories.⁶¹ Living in outlying areas devoid of urban public goods breeds and even exacerbates poverty, shrinks the geography of opportunities, and therefore limits social mobility. A second challenge, given to the country's geographic diversity, involves development of production and services in line with the reality in each region.
- 3.15 **Resilient settlements and urban planning.** Beyond the informal settlements,⁶² the Chilean population is perpetually exposed to both anthropogenic and natural disasters and hazards. In the past 30 years, over 5.14 million people have been affected by disasters in Chile, and 1,500 have died. The damages caused by disasters in this period, especially earthquakes and related secondary hazards, are estimated at over US\$36.4 billion. Furthermore, approximately 80% of Chile's population lives in cities with inadequate urban planning, rising motorization rates, and low-quality public transportation services. This results in severe traffic congestion and long commute times to work,⁶³ and affects the cities' air quality.⁶⁴ Moreover, air pollution outside Santiago is made significantly worse by the use of biomass (firewood) for heating in central and southern Chile. An estimated 4,000 people per year die prematurely from the effects of pollution.⁶⁵ Improving

⁵⁹ Idem 2021.

⁶⁰ Citizen Peace Index 2021, Fundación Paz Ciudadana.

⁶¹ In general, people who end up living in the areas farthest from the city share the social conditions of low income, a lack of job opportunities, a low level of schooling, and few support networks, etc.

⁶² Under the Ministry of Housing and Urban Development's updated methodology and using the data from the CASEN 2020, the quantitative housing deficit is 541,295 units, representing 8.3% of the country's total (Déficitcero, 2022).

⁶³ According to data from CASEN 2015, the average "perceived" length of the commute to work is 50 minutes in the city of Santiago.

⁶⁴ Chile's cities have one of the worst levels of pollution in the Americas (and 6 Chilean cities are listed among the 20 most polluted).

⁶⁵ Recent studies have established the effects of air pollution in child and prenatal mortality, and on students' learning. See Miller S. and J.C. Ruiz-Tagle (2018) "Effects of Air Pollution on Probability of Stillbirth: Evidence from central Chile" SECHI 2,018 Valparaiso, Chile; Miller S. and J.C. Ruiz-Tagle (2016) "Air Pollution and Premature Mortality in Rapidly Developing Economies: Evidence from Santiago, Chile" LACEA, Santa Cruz, Bolivia; and Miller, S. and M. Vela (2013) "The effects of air pollution on educational outcomes: evidence from Chile" IDB-WP-468, Inter-American Development Bank, December.

governance of disaster response will be fundamental, as will investing in green and circular infrastructure to make Chilean cities resilient.

- 3.16 Climate change is continuing to drive up temperatures, while precipitation has decreased,⁶⁶ impacting Chileans' health, productivity, and quality of life.⁶⁷ There is a pressing need to improve urban planning, including the quality of public transportation; promote the use of electromobility; and explore other sources of heating, including district heating, which could rely on renewable sources.⁶⁸ It is also important to develop knowledge on air quality and its impact on chronic diseases. Lastly, although access to water and sanitation services in rural areas is nearly universal (87%), in semi-concentrated areas coverage is only 53%. In all, 47.2% of the rural population (some 300,000 dwellings) do not have a formal supply of drinking water, and instead get their water from wells (58.8%); rivers, estuaries, canals, or springs (25.8%); or water trucks (15.4%). This population is mainly concentrated in the southern macrozone.
- 3.17 With respect to rural sanitation, although the values reported reflect coverage levels of 79%, major questions remain about the types of systems used and the proper operation and maintenance thereof, meaning that coverage may be significantly lower. Due to climate change, it will be increasingly difficult for rural households to obtain drinking water, and it will therefore be essential to modernize the governance of access to water resources. Chile is a country with climatic diversity and different water situations in the north and south. Mainly affected by droughts and floods, it is the only Latin American country that will have extremely high water stress by 2040. To analyze the potential changes in water availability, the Water Scenarios 2030 initiative was established with the support of the IDB Group through technical-cooperation funds. The purpose of this initiative was to develop a roadmap to achieve water security in the country by 2050. The program is currently in its second phase,⁶⁹ which entails evaluating the legal and institutional framework; including the country's 104 watersheds to increase their drought resilience; and supporting the development of a proposal for the National Water Security Plan and an action plan for priority watersheds.
- 3.18 **Action proposals.** The IDB Group will take a multisector approach, integrated in terms of public-private coordination to support the country's efforts to improve the quality of and access to social services (pensions, health, education), public services (housing, transportation, citizen security, animal and plant health, and protection of the environment, including sanitation and water), and to build institutional capacities. To these ends, the IDB Group will: (i) support the processes of social dialogue in the context of the reforms; (ii) strengthen the financing, operational efficiency, and quality assurance systems; (iii) improve the systems for providing goods and services; and (iv) strengthen knowledge and data management for decision-making. All these action proposals will incorporate a

⁶⁶ In Santiago, in less than 20 years the average temperature has warmed 0.4°C, and over the past decade there was an average rainfall shortage of -43%. Government of Chile (2016). "*Resumen climático Chile*." Chile Meteorology Division. Santiago, Chile.

⁶⁷ According to the Third National Communication, the trends observed in Chile's average temperatures up to 2010 showed cooling on the coasts and warming inland (central valley) and in the Andes.

⁶⁸ Today, Chile has enormous renewable energy potential: 1,800+ gigawatts of wind, geothermal, and solar energy. National Green Hydrogen Strategy, 2020.

⁶⁹ Operation RG-T3476.

gender perspective, with the aim of closing the pay and employment gaps and the digital divide, and bolstering actions to address and prevent gender-based violence.

- 3.19 **Improving the quality of and access to social services.** Through knowledge, technical cooperation funds, fee-based services (with the possibility of including the IDB Group's private sector windows), and loan operations, the IDB Group will support the social dialogue process for pension reform; improved healthcare services, especially through shorter waiting lists and digitalized processes; and a better education system (financing mechanisms, protection of education paths, and bringing students back to school, and the digitalization of applications for teaching positions).
- 3.20 **Improving access to and the quality of public services.** Through knowledge, technical cooperation, fee-based services (with the possibility of including the IDB Group's private sector windows), and loan operations, the IDB Group will provide support for strengthening regional transportation systems, improving road and water infrastructure in rural areas, providing animal and plant health services, integrating vulnerable neighborhoods, and developing new housing solutions to address the growing housing deficit.
- 3.21 **Strengthening institutional capacities.** Through knowledge, technical cooperation, fee-based services, and loan operations, the IDB Group will support implementation of Chile's e-government strategy, the cumulative development of probity and transparency in the institutional system, political and fiscal decentralization efforts, improved citizen security, policy reform, the strengthening of social reintegration systems, and implementation of the Climate Change Act.
- 3.22 Action proposals in this strategic area contribute to the following objectives of the second Update to the Institutional Strategy 2020-2023 (document AB-3190-2): (i) providing urban planning and rural infrastructure; (ii) strengthening institutional capacity and the rule of law; (iii) eradicating extreme poverty; and (iv) providing inclusive infrastructure and infrastructure services consistent with achieving a carbon-neutral, resilient economy by 2050. These initiatives also contribute to the strategic priorities of the IDB Invest Business Plan 2020-2022, especially the support for infrastructure development, including social infrastructure,⁷⁰ and are aligned with the IDB Lab Business Plan approved in November 2021.

B. Enabling the Economy of the Future⁷¹

- 3.23 Although Chile has undergone a structural transformation over the past 30 years,⁷² economic growth has slowed markedly since 2000, averaging only 2%.⁷³ Meanwhile, productivity went from contributing 2.3% to growth in the 1990s to 0% since 2010. While the government stimuli spurred unprecedented activity in 2021, situational factors driving medium-term forecasts of low investment and economic

⁷⁰ Operation CII/GA-80-2.

⁷¹ The diagnostic assessment of Chile's development challenges with regard to enabling the economy of the future is reflected in the Country Development Challenges document, specifically Chapter 3, section 3.2.

⁷² While 45% of workers were employed in the primary sector in 1986, now less than 10% are. Two thirds of the working population is employed in the service sector, which has, nevertheless, been unable to drive productivity growth.

⁷³ Not including the year 2020.

- growth persist,⁷⁴ partially due to tighter lending conditions and a more uncertain climate than usual. Chile's economy faces the challenge of returning to a pattern of robust and sustainable growth, for which it must boost investment and raise productivity. In order to make progress towards this objective, the country needs to take measures to correct the underlying causes of its slow growth in productivity and private investment.
- 3.24 There is a two-way relationship between productive diversification and innovation. Chile's export mix mainly comprises primary products classified as having low complexity, which do not make intensive use of knowledge or advanced human capital and are also produced by other countries.⁷⁵ Indeed, in 2019 Chile obtained a score of -0.11 on the Economic Complexity Index, ranking 77th of the 146 countries studied, and far below countries with comparable incomes like Portugal (0.70) and Uruguay (0.02), and even below countries in the region with lower per capita incomes like Colombia (0.10) and El Salvador (0.13).
- 3.25 Although productivity losses are occurring in almost all productive sectors, to a large extent the overall drop has been driven by the mining sector (almost 15% of GDP), as the commodity supercycle led it to prioritize production over efficiency. According to the National Productivity Commission, in 2014 the sector had to mine, haul, and process 40% more mineral matter to obtain the same quantity of fine copper⁷⁶ as in 2000.⁷⁷
- 3.26 **Human capital.** Half of all Chilean adults have inadequate reading and math skills. Chile ranks near the bottom of the OECD in terms of the share of workers with skills in information and communications technologies and in science, technology, engineering, and mathematics (STEM).⁷⁸ The education system suffers from serious shortcomings: in the OECD's Programme for International Student Assessment 2018, 52%, 32%, and 35% of 15-year-olds achieved below-basic competency in mathematics, reading, and science, respectively,⁷⁹ albeit with significant differences among socioeconomic groups and genders; the 2018 data reveal a seven-point gap between men and women in mathematics, and a three-point gap in science.⁸⁰ If Chile were to equal the educational quality of other high-income countries, its productivity gap could be narrowed by 60%.⁸¹ To overcome this human capital deficit, the country must make efforts to improve the quality of its present and future workforces, starting with enhancing classroom education; expanding and accelerating the adoption of technologies in teaching; making up

⁷⁴ Monetary Policy Report, June 2022, Central Bank of Chile (based on Corporación de Bienes de Capital data).

⁷⁵ Lauterbach, R. (2015) "*Chile y la Complejidad de sus Exportaciones*", Working papers series 1, National Council of Innovation for Development.

⁷⁶ One third of the world's copper reserves are in Chile, and the sale of copper provides 25% of the country's tax revenues.

⁷⁷ National Productivity Commission 2017.

⁷⁸ Getting skills right: Chile. OECD, 2018.

⁷⁹ For mathematics, this means that students are unable to interpret and recognize situations in contexts that only require direct inference. They are unable to use basic conventions, procedures, formulas, or algorithms to solve problems with whole numbers. In reading, below-basic-level students are unable to recognize the main idea of a text, understand the relationships or interpret the meaning within a limited part of the text when that information is not prominent, or make comparisons or connections between texts and external knowledge based on their personal experience.

⁸⁰ Gender equality in Chile: Towards a better sharing of paid and unpaid work. OECD, 2021.

⁸¹ Fuentes and Mies, 2014.

for the shortfall in teachers with the right skills; improving the institutional framework at various levels (central, local, and school); and reducing regional inequalities. It will also be important to help workers switch to emerging professions, and to tighten the connection between training advanced human capital and the labor market. Along these lines, closing the gender gaps in careers that involve engineering, science, technology, knowledge, and innovation is a priority in order to expand opportunities for women in emerging sectors. In 2020, women were a minority not only among students enrolled in STEM career tracks (28%), but throughout their professional lives in academia as well, with far fewer women than men working as associate and tenured professors (women held 19% and 22% of these jobs, respectively).⁸² Even more importantly, the country should focus its efforts on early education, which yields higher returns⁸³ and where coverage is the most problematic (only 29% of children ages 0 to 3 attend school).⁸⁴ Unfortunately, the pandemic has exacerbated the preschool learning divide.⁸⁵

- 3.27 **Innovation and research and development.** At 0.37% of GDP, the country's expenditure on research and development is the lowest in the OECD (average of 2%) and less than the Latin American average.⁸⁶ The private sector's share is small (35%), falling well short of the OECD-country average (over 70%). Moreover, this share is concentrated among a small group of large companies, and just 10% of firms use digital tools specific to their business. The problem can be traced back to multiple factors: companies have little incentive to innovate; there is scant financing available for key elements for innovation, like infrastructure, knowledge, and the training of human capital; and the government does not drive or call for innovation as occurs in other OECD countries. Private-sector cultural aspects also hamper innovation within companies, even innovations that entail adopting existing technologies. To overcome these issues, Chile must take steps to diversify the productive structure,⁸⁷ strengthen public research and development institutions, accelerate technology adoption in companies and private-sector participation in research and development efforts, and reduce the costs associated with the digital network.
- 3.28 **Access to financing.** The country's macroeconomic fundamentals have made it possible to expand the financial system: domestic credit to the private sector as a percentage of GDP reached 124% in December 2020, the highest level in Latin America, where the average is 52%, but still lower than the OECD average (159%). However, 18% of companies state that access to credit is an obstacle to doing business (compared to 12% on average in the OECD).⁸⁸ Women-led MSMEs suffer restricted access to finance, since women entrepreneurs have less access than men entrepreneurs to financial services, including credit, capital financing, and insurance. Although the 2019 Global Competitiveness Report ranks the Chilean

⁸² National policy on gender equality in science, technology, knowledge, and innovation. Ministry of Science, 2021.

⁸³ Heckman and Mosso, 2014.

⁸⁴ CASEN 2015.

⁸⁵ The development setbacks observed in Chile during the pandemic resemble the existing gaps between children whose mothers have a university degree and children whose mothers do not (Abufhele, Bravo, Lopez Boo, and Soto 2021).

⁸⁶ [OECD economic studies: Chile 2018](#), OECD 2018.

⁸⁷ Copper continues to make up over 47% of exports.

⁸⁸ Enterprise Survey, World Bank.

banking system 21st out of 141 countries, the Chilean government is not delivering the quality of service demanded by companies and citizens. World Economic Forum surveys show that inefficient government bureaucracy is the second most important factor making it difficult to do business in Chile.⁸⁹ There are no uniform protocols for sharing information among different government systems, and so the State continues to request redundant information and postpone the execution of investment projects, and the wealth of existing data is not leveraged to enhance the design of public policies or the delivery of public services.⁹⁰ Only half of government procedures can be started and completed online, compared to 81% in the European Union.⁹¹ Efforts have been made to modernize the public administration, but they are spread out across multiple institutions, and therefore require extensive interagency coordination.

3.29 The most significant challenges facing Chile include the lack of long-term planning and gaps in the coverage and quality of infrastructure works, including highways, airports, railways, ports, telecommunications, interurban roads, and logistics;⁹² the lack of drinking water infrastructure; and sanitation in rural zones. Just 5% of the road network is in poor condition, but only 25% of it is paved (OECD 79%). Furthermore, Chile strongly depends on maritime trade infrastructure, and the location of its ports is a determining factor for exports.⁹³ In terms of the costs of foreign trade, although the country is well-positioned (290) with respect to Latin America and the Caribbean (516), it still has very high costs compared to high-income OECD countries (137).⁹⁴ Railroads lag behind (only transporting 4% of cargo), while air transport is still in its early stages.⁹⁵ Lastly, Chile does not have a road infrastructure system with alternate routes that would make it possible to maintain connections and handle the increased frequency of extreme weather events; this may lead to isolations and connectivity losses. Meanwhile, investment in infrastructure must address the new risks caused by climate change, particularly the water shortage resulting from reduced precipitation and the country's limited water storage and wastewater treatment capacities (which primarily affect rural areas, agriculture, and agroindustry).^{96,97} In addition, according to data from the Offices of the Deputy Secretaries for Regional and Administrative Development, 64% of infrastructure works for the final disposal of solid waste do not comply with MINSAL regulations.⁹⁸ This is challenging in a context in which per capita waste generation has been increasing significantly (due to the country's higher levels of development). The

⁸⁹ Surpassed only by the work regulations, and ahead of insufficient human capital and taxes.

⁹⁰ Ibid.

⁹¹ García-Zaballos et al. 2021.

⁹² OECD (2017), [Análisis de gobernanza de infraestructura: Chile](#), OECD Publishing, Paris.

⁹³ Around 95% of Chile's foreign trade is transported through the country's ports. Of that amount, 26% is transferred through three government ports whose terminals operate under concessions.

⁹⁴ Cost to export. Doing Business, World Bank (2019).

⁹⁵ In terms of services, Chilean airports are not among the most exceptional in the region; the Santiago airport, rated seventh in the region, is the most noteworthy.

⁹⁶ FAO (2013), [Agro-industries for development](#). Rome.

⁹⁷ The necessary investment in water infrastructure until 2027 is an estimated US\$1.8 billion a year. (*Infraestructura Crítica para el Desarrollo*, Chilean Chamber of Construction, 2018).

⁹⁸ MINSAL Decree 189.

sanitary landfill situation is currently critical, since several are reaching the end of their useful lives.

- 3.30 **Action to combat climate change.** Chile is one of the countries that is most threatened by climate change, particularly due to natural disasters and its water risk.⁹⁹ Private water rights and their marketability have led to overuse of water resources, with insufficient regulation. Even though the environmental agenda has historically been driven by deforestation and poor air quality, Chilean governance, especially regarding water, trails the OECD.¹⁰⁰ Chile's Climate Change Framework Act (2022) and updated Nationally Determined Contribution (April 2020) establish the objective of achieving a resilient and carbon-neutral economy by no later than 2050. Watershed-level water-management plans that entail diversifying and expanding drinking water sources and reducing consumption and loss, use nature-based solutions, and consider uncertain future conditions, are essential to ensuring a resilient, safe water supply. In Chile, reaching net-zero emissions is technically possible, and doing so will yield a net benefit of up to 5.2% of GDP.¹⁰¹ One challenge to achieving a resilient, carbon-neutral economy is the need to coordinate and enable spending on climate solutions by government agencies, companies, and households in all sectors of the economy. The scale of this challenge is formidable: the expenditure needed to meet the adaptation, resilience, and decarbonization objectives will constitute up to 20% of the country's GDP.¹⁰² Furthermore, for the transition to be politically and socially acceptable, it must be fair, meaning that it must: (i) maximize the economic and social benefits of decarbonization and resilience; (ii) prevent, minimize, or offset the social costs of the climate agenda; and (iii) give a voice, in its very design, to all parties affected by the climate policy.¹⁰³
- 3.31 **Environmental protection.** Chile's extensive natural capital is shrinking: natural capital growth and natural capital per capita decreased 0.6% and 1.8%, respectively, between 1990 and 2014.¹⁰⁴ Chile's Nationally Determined Contribution includes commitments to biodiversity and caring for nature, notably through the creation of protected areas and the expansion of forest cover, especially sustainably managed forest cover made up of native species.
- 3.32 The fishing industry is very important to Chile, and is threatened by overfishing, increasing temperatures, acidification, habitat loss, and pollution. Chile has high afforestation rates, but they are based on monocultures of exotic species that grow quickly. Meanwhile, erosion and desertification affect a major part of the country's

⁹⁹ Chile is one of the 30 countries that by 2025 will have the highest water risk in the world, according to the Water Scenarios 2030 report.

¹⁰⁰ Chile scored poorly among the OECD countries on the Sustainable Governance Indicators (World Bank 2017).

¹⁰¹ Benavides, C., Cifuentes, L., Diaz, M., Gilabert, H., Gonzales, L., Gonzalez, D., Groves, D., Jaramillo, M., Marinkovic, C., Menares, L., Meza, F., Molina-Perez, E., Montedonico, M., Palma, R., Pica, A., Salas, C., Syme, J., Torres, R., Vicuña, S., Valdes, J.M., Vogt-Schilb, A., 2021. [Options to achieve carbon neutrality in Chile: an assessment under uncertainty](#). Inter-American Development Bank.

¹⁰² Galindo Paliza, L.M., Hoffmann, B., Vogt-Schilb, A., 2022. [How much will it cost to achieve climate goals in Latin America and the Caribbean?](#) Inter-American Development Bank.

¹⁰³ Saget, C., Vogt-Schilb, A., Luu, T., 2020. [Jobs in a net-zero emissions future in Latin America and the Caribbean](#). Inter-American Development Bank and International Labour Organization.

¹⁰⁴ That said, the country's human and produced capital offset the decreases in natural capital over the period (Managi and Kumar 2018). Consequently, Lange et al. (2018) found that Chile has been successful in capturing income from natural capital and investing in other classes of assets (Lange et al., 2018).

- territory. Forest fires are more frequent,¹⁰⁵ and the legislation on protected land areas has multiple loopholes.
- 3.33 **Action proposals.** The IDB Group will take a multisector approach, integrated in terms of public-private coordination with a gender perspective to support the country in: (i) boosting the economy's environmental and social sustainability; (ii) improving human talent and the business climate; and (iii) increasing productivity through financing for infrastructure and businesses.
- 3.34 **Boost the economy's environmental and social sustainability.** Through knowledge, technical cooperation funding, fee-based services, and loan operations, the IDB Group will seek to: (i) improve water use efficiency, by strengthening the regulatory framework and fostering innovative financing arrangements to increase investment in the sector and promote climate resilience; (ii) help improve the governance of protected land and sea areas, and explore opportunities for developing a sustainable ocean-based economy; (iii) support more efficient implementation of air quality management standards; (iv) promote the development of productive sectors that are more resilient to the impacts of climate change and contribute to the decarbonization of the economy; (v) leverage the circular economy as a pillar of sustainability; and (vi) support the development of governance and coordination for the green taxonomy.
- 3.35 **Improve human talent and the business environment.** Through knowledge, technical cooperation funding, fee-based services (with the possibility of including the IDB Group's private sector windows), and loan operations, the IDB Group will seek to: (i) strengthen the country's regulatory policy, consumer protections, MSMEs, and digital economy; (ii) help improve opportunities for skills that are lacking in the present and future workforce;¹⁰⁶ (iii) expand innovation, through more and better managed financing for research, development, and innovation; and (iv) promote entrepreneurship and MSMEs, emphasizing women-led businesses.
- 3.36 **Improve productivity through infrastructure financing.** Through knowledge, technical cooperation funding, including advisory services of the IDB Group's private sector windows, fee-based services, and loan operations, the IDB Group will aim to: (i) diversify the supply of freight infrastructure services, expanding the network of paved roads, fostering rail transport, and improving port-inland connectivity; (ii) help implement resilient transportation infrastructure plans; (iii) advance the decarbonization of the economy, expanding the hydrogen industry, promoting electromobility, and promoting the use of sustainable modes of transportation; and (iv) improve the speed of existing connectivity networks, contributing to implementation of the Law on the Digital Transformation of the State, and strengthening governance of the digital transformation process.
- 3.37 **Improve productivity through business financing.** Through knowledge, technical cooperation funding, fee-based services, and loan operations, the IDB Group will seek to: (i) promote measures and manage projects to improve financial inclusion in Chile, leveraging the penetration of fintech companies to incentivize expansion of technology solutions, fostering the participation in the debt market of medium-size enterprises and companies with higher risk profiles,

¹⁰⁵ From 2014 to 2018, there were an average of 6,504 fires per year, affecting around 177,285 hectares annually.

¹⁰⁶ The present and future workforces include current and future workers, who must be supported from the early education stage.

- promoting the stock market as a mechanism for expanding financing, and supporting the issuance of thematic bonds that mobilize financing resources towards sustainable investments; (ii) prioritize mechanisms that support the development of the venture capital and private investment funds industry, fostering the structuring of alternative productive financing and innovation-building vehicles; and (iii) promote actions to improve women entrepreneurs' access to business financing.
- 3.38 Action proposals in this strategic area contribute to the following objectives of the second Update to the Institutional Strategy 2020-2023 (document AB-3190-2): (i) developing quality human capital; (ii) establishing suitable institutional frameworks; (iii) providing inclusive infrastructure and infrastructure services consistent with a resilient, carbon-neutral economy;¹⁰⁷ and (iv) providing adequate knowledge and innovation ecosystems. The stated priorities are also aligned with the IDB Invest Business Plan 2020-2022, in particular as regards supporting infrastructure development, strengthening the capabilities of the corporate sector, and building partnerships with the financial sector to work on priority action areas, such as SME support.¹⁰⁸ The IDB Lab Business Plan approved in November 2021 also lays the groundwork for prospecting, testing, and scaling up high-impact technological innovations in the knowledge economy sphere.

C. Crosscutting issues and dialogue areas

- 3.39 The topics of (i) gender, diversity, inclusion, and equity, including migrants (see above); (ii) climate action and sustainability (see above); (iii) institutional capacity and rule of law; (iv) regional focus (see above); and (v) digitalization will be addressed as crosscutting issues.
- 3.40 Although Chile's **institutions** are noteworthy, Chileans are calling for improvement. Chile is currently the regional leader with respect to Sustainable Development Goal 16, "Peace, Justice, and Strong Institutions," having obtained 69.74 points (Latin America 46.1) and comparing positively with OECD countries on most subindicators, especially the ones on the rule of law. Even so, basic institutions like the police forces, the pension system, and the political system have been highly discredited. The massive numbers and diversity of people who participated in the recent protests suggest that Chileans expect their public institutions to play a more significant role in various economic spheres, including the delivery of services and social protection, and in the regions. More recently, the pandemic revealed gaps in the State's capacities for deploying timely, efficient aid based on the economic vulnerability of specific groups during crises, which are inadequately monitored; for tracing COVID-19 cases; and for ensuring institutional continuity for the delivery of services. These gaps are more marked in the regions. Lastly, **digitalization** is a key tool for pursuing the established objectives. The so-called fourth industrial revolution has arisen based on the transformation of the economy and production processes, resulting from digital technologies like the internet of things, robotics, artificial intelligence, machine learning, big data, and cloud computing.¹⁰⁹ Although the pandemic sped up the government's,

¹⁰⁷ Leverage the circular economy as a pillar of sustainability.

¹⁰⁸ Operation CII/GA-80-2.

¹⁰⁹ [The Digital Transformation Imperative: An IDB science and business innovation agenda for the new industrial revolution](#). 2018, IDB.

companies', and households' adoption of digital tools, it did so unequally. Chile still maintains a major digital divide compared to the OECD countries, especially in access, with only 18 subscriptions to broadband internet¹¹⁰ per 100 inhabitants, just over half the OECD average (32).¹¹¹

- 3.41 **Dialogue areas.** Given Chile's strategic importance and leadership in **regional integration**, the IDB Group will continue its dialogue on matters that include the country's participation in the Pacific Alliance, intraregional cooperation arrangements (e.g., Pacific Alliance-Mercosur), and Asia-Pacific integration, in particular the Asia Pacific Economic Cooperation Forum. This collaboration agenda will focus on issues like (i) regulatory harmonization; (ii) increased intraregional foreign investment flows; (iii) financial integration; and (iv) the development of regional infrastructure.

IV. ESTIMATED LENDING FRAMEWORK

- 4.1 The estimated lending scenario for the country strategy period entails sovereign guaranteed loan approvals of approximately US\$3 billion. This level of approvals, together with the expected disbursements, is consistent with the IDB's average level of financing of Chile's fiscal deficit. The country's debt with the IDB would reach US\$3,253.5 million at the end of the period,¹¹² equivalent to 5.2% of its external government debt and 2.0% of its total debt. Net loan flows are expected to be positive over the course of the strategy period, averaging US\$495.1 million per year for a total of US\$1,980.3 million at the end of the period.

V. STRATEGY IMPLEMENTATION

- 5.1 **Knowledge-generation strategy.** Given the challenge the IDB Group faces in staying relevant as a source of finance in Chile, it is crucial for the strategy to guarantee an attractive supply of financing based on the IDB Group's value-added in terms of knowledge, transmission of good practices, and its role as an honest broker. A fundamental pillar of this value-added is the IDB Group's knowledge of high technical quality, to contribute to public policy decisions that will address the country's priority challenges. In the framework of the strategy, the IDB Group and the Government of Chile will draw up a shared knowledge agenda, to include: (i) agreements on technical and public policy priorities; (ii) identification of potential partners; (iii) a financing implementation strategy; and (iv) dissemination in Chile and in the other countries of the region.
- 5.2 **Internal IDB Group coordination and innovative instruments.** Bearing in mind the aforementioned challenge and IDB Invest's growing share of operations in the Group's total exposure to the country, the IDB, IDB Invest, and IDB Lab will strengthen their strategic coordination to further amplify the impact of IDB Group actions in Chile. Moreover, Chile's demand for cutting-edge knowledge, international best practices (especially from OECD countries), and state-of-the-art solutions, calls for ever more innovative use of the various IDB Group instruments (including reimbursable, fee-based, and contingent financing; loans based on

¹¹⁰ Indicator of people's internet use beyond leisure, communication, and social networks.

¹¹¹ Digital Economy Outlook 2020.

¹¹² Annex III.

results and linked to performance indicators;¹¹³ guarantees; and blended finance instruments), to scale up successes and enhance mobilization of the private sector to provide solutions to the country’s economic and social challenges.

- 5.3 **Use of country systems.** Fiduciary supervision currently relies on the following country systems: (i) Public Financial Management System: budget, treasury, accounting, and reports (except for the reporting subsystem that is not used in IDB-financed projects), internal audit, and external audit; (ii) Procurement: all subsystems were approved for advanced use: information system; works; goods and nonconsulting services; and consulting services, up to the IDB Group thresholds for international competitive bidding, and individual consulting with no cost ceiling.
- 5.4 The plan for the strategy period is to continue fostering dialogue and strengthening actions with DIPRES (the liaison agency), the external and internal regulatory bodies, the General Treasury of the Republic, and ChileCompra, with a view to: (i) continue to support the Office of the Comptroller General in oversight, mainly focused on digital-transformation and data-usage issues; (ii) support the Office of the Comptroller General in the necessary regulatory deepening due to the maturity achieved in adoption of the International Public Sector Accounting Standards (IPSAS) at the central and municipal levels; (iii) support the process of centralizing resources in the Treasury Single Account and Pooled Payment; (iv) automate financial reporting; (v) support ChileCompra in implementing its strategic plan, so as to obtain value for money in procurement, with actions consolidating the development of an innovative, competitive, sustainable public procurement market. Special attention will be devoted to regulatory, institutional, and systemic reforms, with a view to finding areas for support and monitoring.

Table 2. Country Systems

Country Systems	Level of use		Country strategy planned actions
	Percentage of projects (%)		
	Baseline 2021	Estimated use 2026	
Budget	100%	100%	<ul style="list-style-type: none"> Tracking of use and monitoring of regulations
Treasury	100%	100%	<ul style="list-style-type: none"> Support the process of centralizing resources in the Treasury Single Account and Pooled Payment
Accounting and reporting ¹¹⁴	45%	45%	<ul style="list-style-type: none"> Support the Office of the Comptroller General of the Republic in the IPSAS adoption maturation process, at the central and municipal levels Support automation of financial reporting

¹¹³ Like the loans linked to climate performance indicators (sustainable linked loans). The Bank is analyzing the incorporation of this mechanism into the offering of lending instruments.

¹¹⁴ The level of use as of 31 December 2021 includes use in policy-based loans.

Internal audit	100%	100%	<ul style="list-style-type: none"> Tracking of use and monitoring of regulations Ongoing dialogue with the government Internal Audit General Council
External control	100%	100%	<ul style="list-style-type: none"> Tracking of use and monitoring of regulations Strengthening of the country system, through digitalization and data use
Information system	100%	100%	<ul style="list-style-type: none"> Tracking of use and monitoring of legislation
Individual consulting	100%	100%	<ul style="list-style-type: none"> Tracking of use and monitoring of legislation
Shopping	100%	100%	<ul style="list-style-type: none"> Tracking of use and monitoring of legislation
Partial NCB	N/A	N/A	N/A
Advanced NCB	100%	100%	<ul style="list-style-type: none"> Tracking of use and monitoring of legislation

VI. RISKS

- 6.1 **Macroeconomic risks.** Chile is a small, open economy exposed to deterioration of the external economic context. In particular, the risks are associated with external financing conditions, upon which Chile has become increasingly dependent due to the deterioration of the domestic capital market, and with the trade policies and performance of the primary export destinations. Slower growth of the Chilean economy would lead to less investment and lower tax revenues. This could jeopardize government program targets and, consequently, strategy implementation. To minimize these risks, IDB Group efforts will focus on diversifying the export mix and improving productive capacity so that the country can be better prepared to face these contingencies. The IDB Group will also closely monitor these risks using its macroeconomic monitoring instruments.
- 6.2 **Natural disaster risk.** Chile is highly exposed to the risk of natural disasters, compounded by its vulnerability to the effects of climate change. Since 2009, there have been four high-intensity earthquakes (two with associated tsunamis); four large forest fires, the worst ever recorded; three volcanic eruptions; three episodes of sudden rainfall; and three episodes of landslides and mudflows.¹¹⁵ A large-scale natural disaster occurring during the strategy period could shift government priorities, hampering execution of projects financed by the IDB Group. Furthermore, if the mega drought that began in 2010 and the reduction in precipitation continue in the central zone, the agricultural sector, primarily the export-oriented segment, will be adversely affected.¹¹⁶ It is also likely that an ongoing rise in temperatures will impact the country's water resources as a result of reduced snow accumulation and changes in precipitation patterns, and that urban and other critical infrastructure will remain exposed to the impacts of extreme precipitation and rising sea levels. To mitigate these risks, the operations approved during the new strategy period will aim to incorporate and/or consider measures to reduce natural disaster risk and to

¹¹⁵ Government report on the environment, Chapter 17 on extreme events and disasters.

¹¹⁶ Climate change scenarios predict 10% to 20% decreases in productive potential in the northern part of the production zone (Country Development Challenges Chile 2018).

promote investments that will help adapt infrastructure and production and urban systems to this environmental reality.

- 6.3 **Political risks.** The drafting and potential implementation of a new constitution introduce uncertainty into the political and economic climate, especially in the current context characterized by a low level of institutional legitimacy and high citizen expectations. Moreover, the new authorities are arriving with an ambitious program of reforms, and some members of the government coalition are joining the government for the first time in history. This combination could lead to challenges for planning the IDB Group's work in Chile. Likewise, if the indigenous conflict in the south intensifies, the consequences could disrupt execution of operations. To minimize these risks, the IDB Group will direct its efforts towards supporting the social cohesion agenda, through inclusive economic, social, and political policies.
- 6.4 **Execution risks.** Against a backdrop of budgetary constraints to reduce the fiscal deficit and stabilize the growth of public debt, sector ministries have limited fiscal headroom, in terms of both external and domestic resources. This challenge, coupled with certain counterparts' debut in government and the country's ongoing political reform process, which could lead to new actors and public agencies, amplify the challenges of interagency collaboration and coordination. To mitigate this risk, the IDB Group will place emphasis on monitoring operations through a continuous tripartite portfolio review system (sector ministries, DIPRES, the Bank) and maintaining close dialogue with the Ministry of Finance through the DIPRES. In addition, the IDB Group's own resources will also be used to provide technical support for the execution of certain projects when weaknesses are found in the respective execution units' coordination of activities.

ANNEX I: STRATEGY RESULTS MATRIX

Priority area	Strategic objective	Expected outcomes	Indicators	Baseline (measurement source and year)
Promote social cohesion and inclusion	Improved access to and quality of social services.	Access to better pensions for the population	Net pension replacement rate for the average worker	The net replacement rate for Chile is 37.3. (Source: OECD, 2019).
		Support improvement of the public healthcare system's response capacity and timeliness of care.	Average wait time for new specialist appointments not subject to the Explicit Health Guarantees, nationwide.	504.2 days (Source: Wait time management system. Cutoff March 2022. Itemized list 06/2022)
	Improved access to and quality of public services	Improve the delivery of goods and services with a focus on territorial equity and care for the environment	Percentage of the population living in municipalities with lower-middle or low quality of life	For 2021, this indicator is 53% (Source: Urban Quality of Life Index (ICVU))
	Improvement of the efficiency and quality of Chilean institutions	Strengthen knowledge and data management for decision-making	E-government Development Index	In 2020 the country earned a score of 0.8259. (Source: OECD, 2020).
		Improve the institutional quality of public agencies	Institutional Quality Index	In 2021, Chile earned a score of 0.8175. (Source: Liberal Network for Latin America (RELIAL), 2021)
	Enabling the economy of the future	Increase the economy's environmental and social sustainability through decarbonization of the productive and consumption matrix, growth of the circular economy, nature-based solutions, and enhancement of natural capital.	Contribute to the decarbonization of the energy system	Share of renewable energies in the power matrix

Priority area	Strategic objective	Expected outcomes	Indicators	Baseline (measurement source and year)
	Improve productivity	Increase women's participation in STEM careers	Percentage of university students enrolled in STEM career tracks who are women	In Chile, 19% of STEM career track graduates are women. (Source: In-depth study of gender in science, technology, knowledge, and innovation - Ministry of Science, 2020).
		Improve access to information and communications technologies	Percentage of households with fixed broadband	In 2021, 67% of households have fixed internet access. (Source: SUBTEL, 2022)
	Productivity growth through improved logistics, increased use of technology, improved business management, and access to financing for innovation, research, and development.	Increase the scope and improve the quality of infrastructure and logistics	Logistics Performance Index	In 2018, Chile scored 3.21. (Source: World Bank, 2018).
		Increase investment in research and development	Spending on research and development (% of GDP)	In 2020, this indicator was 0.34% of GDP. (Source: World Bank, 2020).
		Foster financial inclusion	Bank lending to microenterprises	Bank lending to microenterprises is 21.3%. (Source: Ministry of Economy of Chile)

COUNTRY SYSTEMS MATRIX

Strategic objective	Expected outcome	Indicator	Unit of measure	Baseline	Baseline year	Main objective	Time distribution	Corporate Results Framework alignment
Strengthening of country systems	Support for consolidating and furthering adoption of the International Public Sector Accounting Standards, at the central and municipal levels	Number of advisory services finalized	Strengthening interventions	0	2021	3	At the end of the strategy period	<ul style="list-style-type: none"> - Institutional capacity and the rule of law - Productivity and innovation
	Support for implementation of the Office of the Comptroller General Strategic Plan 2021-2024, emphasizing the use of new technologies and process automation	Number of advisory services finalized	Strengthening interventions	0	2021	2	At the end of the strategy period	<ul style="list-style-type: none"> - Institutional capacity and the rule of law - Productivity and innovation - Social inclusion and equality
	Support for the process of centralizing resources in the Treasury Single Account and Pooled Payment	Number of interventions completed	Strengthening interventions	0	2021	3	At the end of the strategy period	<ul style="list-style-type: none"> - Institutional capacity and the rule of law - Productivity and innovation
	Exchange of public fiduciary knowledge in Latin America and the Caribbean: advanced practices are received by other countries through south-south cooperation	Number of countries in the region and entities that receive support for strengthening and cooperation from Chile	Number of south-south cooperations	28	2021	35	At the end of the strategy period	<ul style="list-style-type: none"> - Institutional capacity and the rule of law - Productivity and innovation - Social inclusion and equality
Improve the operational efficiency of the IDB portfolio	Analysis conducted for development of a technology solution for optimizing the reporting system	Coordination sessions held	Number of sessions	0	2021	4	At the end of the strategy period	<ul style="list-style-type: none"> - Institutional capacity and the rule of law - Productivity and innovation - Social inclusion and equality

ANNEX II. MAIN ECONOMIC AND SOCIAL INDICATORS

Social indicators	2015	2016	2017	2018	2019	2020	2021
Population (millions) (2)	18.0	18.2	18.4	18.8	19.1	19.5	19.6
Overall poverty rate (%) (3)	11.7		8.6			10.8	
Extreme poverty rate (%) (3)	3.5		2.3			4.3	
Unemployment rate (%) (2)	6.2	6.5	6.7	7.4	7.2	10.8	8.9
Nominal GDP (US\$ billion)	243.965	250.794	276.963	298.165	279.742	253.172	317
Nominal GDP per capita (US\$) (6)	13,553	13,779	15,052	15,859	14,646	12,983	16.5*
Real sector (Δ%)							
Nominal GDP (1)	7.4	6.3	6.0	6.2	2.9	2.1	20.1
Real GDP (1)	2.3	1.7	1.2	3.7	0.9	-5.8	11.7
Final consumption (1)	2.6	3.5	3.6	3.7	0.8	-6.8	22.6
Private (1)	2.1	2.7	3.4	3.8	1.0	-7.5	26.8
Public (1)	4.8	7.2	4.6	3.3	-0.2	-3.9	7.6
Nominal GDP per capita (US\$) (1)	-1.0	1.7	9.2	5.3	-7.7	-11.4	23.6
Consumer price index (1)	4.4	2.7	2.3	2.6	3.0	3.0	7.2*
Public finances (% of GDP)							
Total revenues, central government (4)	21.0	20.8	21.0	22.0	21.7	20.2	23.9
Tax revenue (4)	17.3	17.1	17.1	18.0	17.6	16.4	18.8
Nontax revenue (4)	3.7	3.7	3.9	4.0	4.1	3.8	5.1
Total expenditure, central govt. (4)	23.2	23.5	23.7	23.7	24.5	27.6	28.2
Primary current expenditure (4)	18.3	18.9	19.3	19.2	19.8	23.2	
Capital (4)	4.2	3.9	3.6	3.7	3.8	3.5	
Interest (4)	0.7	0.7	0.8	0.8	0.9	1.0	0.9
Net balance, central govt. (5)	-2.1	-2.7	-2.7	-1.5	-2.7	-7.1	
Net primary balance, central govt. (5)	-1.9	-2.4	-2.4	-0.7	-1.8	-6.1	
Gross debt, central govt. (5)	17.3	21.0	23.6	25.6	28.2	32.5	32.9*
Net debt, central govt. (5)	-3.4	0.9	4.4	5.7	8.0	13.4	14.1*
External accounts (% of GDP)							
Current account (5)	-2.3	-1.4	-1.5	-4.1	-4.2	1.3	-6.6
Balance of goods and services (6)	-0.1	0.9	1.9	0.0	-0.4	5.3	-0.7
Exports (6)	29.4	28.2	28.7	32.9	30.7	31.6	31.9
Imports (6)	29.6	27.3	27.0	32.9	31.0	26.2	32.5
Foreign direct investment (5)	2.1	2.0	0.6	2.6	1.4	-0.3	
Net international reserves (billions of US\$)	38.643	40.494	38.983	39.860	40.656	39.200	51.330*

Sources: Central Bank (1), INE(2), CASEN(3), DIPRES(4), WEO(5), World Bank(6). *August 2022.

ANNEX III: ESTIMATED LENDING SCENARIO-2022-2026

(US\$ millions and percentages)										
	Country Strategy 2019-2022*			Total	Country Strategy 2019-2022*					Total
	2019	2020	2021		2022	2023	2024	2025	2026	
Approvals	198	300	1,120	1,618	700	750	750	750	750	3,700
Disbursements	76.2	450.1	721.5	1,247.8	674	323.6	573.6	823.6	750	3,145
Repayments	84.6	73.7	64.6	222.9	41	81.4	77.2	214.9	172.3	587
Net cash flow	-8.4	376.4	656.9	1,024.9	633	242.2	496.4	608.7	577.7	2,558
Debt to IDB	879.7	1,280	1,957	1,185.9	1,995.03	2,067.1	2,675.8	3,253.5	5,811.5	15,803
IDB debt/GDP (%)	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
IDB debt/external govt. debt (%)	6.8%	7.99%	8.8%	8.2%	9.1%	4.1%	4.7%	5.2%	8.6%	6.3%
IDB debt/external multilateral debt (%)	86.7%	88.5%	89.5%	88.6%	89.9%	90.0%	92.0%	93.5%	94.5%	92.0%
IDB debt/total govt. debt	1.3%	1.5%	1.7%	1.5%	1.7%	1.5%	1.8%	2.0%	3.2%	2.0%

Source: Bank systems, government debt office, WEO, and internal staff estimates. Disbursement projections consider current portfolio operations plus disbursements associated with two-tranche policy-based loans. Information on repayments and interest come from the Bank's report <http://iredwprod/dsprj/> based on the current portfolio.

ANNEX IV: DEVELOPMENT EFFECTIVENESS MATRIX

COUNTRY STRATEGY DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008 the Board of 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 (DEM-CS) 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

STRATEGIC ALIGNMENT

Refers to the degree to which the design and objectives of the country strategy are consistent with the country development challenges and with the government’s development plans and priorities.

EFFECTIVENESS

These measure whether the country strategy is likely to achieve its intended objectives, through an examination of three 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 buildup of country systems.

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Country Strategy Priority Areas Diagnostics**	%
- that clearly identify and dimension, based on empirical evidence, the priority area's specific constraints and challenges	100%
- that clearly identify and dimension, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges	100%
- that provide corresponding policy recommendations	100%
III. Results matrix*	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results are related to the main constraints identified in the diagnosis	82%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	100%
IV. Vertical logic	
- The CS** has vertical logic	Yes

* The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expected results stem from the strategic objectives.

** CS includes the CDC.

CS Diagnosis:

As part of the Bank’s Strategy with Chile for 2022-2026, a diagnosis of the development challenges in the country was presented. The diagnosis is comprehensive and based on empirical evidence. Based on this diagnosis and the dialogue process with the country, the country’s strategy will focus on two development challenges: (i) Promotion of Social Cohesion and Inclusion; (ii) Enabling the Economy of the Future.

- Based on empirical evidence, the diagnosis clearly and dimensionally identifies 100% of the specific limitations and challenges of the priority areas.

- Based on empirical evidence, the diagnosis clearly and dimensionally identifies the main factors or causes that contribute to the specific limitations and challenges for 100% of the priority areas.

- Based on empirical evidence, the diagnosis proposes the policy framework and a sequence for the Bank’s actions for 100% of the priority areas.

Results matrix: The results matrix contains 6 strategic objectives for the Bank’s action and 11 indicators to measure progress toward the proposed objectives.

- 100% of the strategic objectives are clearly defined.

- 100% of the expected results are clearly defined.

- 82% of the strategy’s objectives are directly related to the main challenges identified in the diagnosis.

- 100% of the indicators used are outcome and SMART.

- 100% of the indicators have baselines

Country Systems: Fiduciary supervision currently rests on the following national systems: (i) Public Financial Administration System: Budget, Treasury, Accounting and Reports (except for the reporting subsystem that is not used for rendering accounts of IDB-financed Projects), Internal Audit and External Audit; (ii) Procurement: all subsystems were approved for advanced use: Information System; plays; goods and nonconsulting services; and consulting services, up to the Bank’s thresholds for international public bidding; and Individual Consulting with no cost limit.

Vertical logic: The Country Strategy has a clear vertical logic.

RISKS. The main risks facing the implementation of the Country Strategy are related to: (i) macro risks; (ii) natural disaster risks; (iii) politics risks; and (iv) risks of execution and institutional capacity. Mitigation and monitoring measures have been identified for all the risks.