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AND

INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY

FOR

THE REPUBLIC OF CHILE

FOR THE PERIOD FY11-FY16

January 11, 2011

**Bolivia, Chile, Ecuador, Peru and Venezuela Country Management Unit
Latin America and the Caribbean Region**

**The International Finance Corporation
Latin America and the Caribbean Region**

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January 1 – December 31

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ABBREVIATIONS AND ACRONYMS

AAA	Analytic and Advisory Activities	IBRD	International Bank for Reconstruction and Development
AFP	<i>Administradora de Pensiones</i> (Pension Fund Administrator)	ICR	Implementation Completion and Results Report
APL	Adaptable Program Lending	ICT	Information and Communication Technology
ATI	Access to Information	IDF	Institutional Development Fund
AUGE	<i>Acceso Universal con Garantías Explícitas</i> (Universal Access with Explicit Guarantees)	IFC	International Finance Corporation
CAE	<i>Crédito con Aval del Estado</i> (State-Guaranteed Student Loan Program)	IMF	International Monetary Fund
CAS	Country Assistance Strategy	JSP	Joint Studies Program
CASEN	<i>Encuesta de Caracterización Socioeconómica Nacional</i> (National Socioeconomic Characterization Survey)	LAC	Latin America and the Caribbean
CCC	<i>Chile Crece Contigo</i> (Chile Growth with You)	M&E	Monitoring and Evaluation
CG	Central Government	MIC	Middle-Income Country
CGE	Central Government Entities	MIDEPLAN	<i>Ministerio de Planificación</i> (Ministry of Planning)
CNE	<i>Comisión Nacional de Energía</i> (National Energy Commission)	MKB	<i>Mercado de Capitales del Bicentenario</i> (Bicentennial Capital Markets Agenda)
CONAMA	<i>Comisión Nacional del Medio Ambiente</i> (National Commission for the Environment)	MPW	Ministry of Public Works
CPI	Consumer Price Index	MSMEs	Micro, Small and Medium Enterprises
CPS	Country Partnership Strategy	MW	Megawatt
CPSCR	Country Partnership Strategy Completion Report	OECD	Organization for Economic Co-Operation and Development
CPSPR	Country Partnership Strategy Progress Report	PIRDT	<i>Programa de Infraestructura Rural para el Desarrollo Territorial</i> (Rural Infrastructure Program for Territorial Development)
DIPRES	<i>Dirección de Presupuestos</i> (Budget Directorate)	PISA	Programme for International Student Assessment
DPL	Development Policy Loan	PMDT	Plan Marco de Desarrollo Territorial (Territorial Development Framework)
EU	European Union	PMG	(Enhancement Management Program)
FBS	Fee-Based-Service	QER	Quality Enhancement Review
FCPF	Forest Carbon Partnership Facility	R&D	Research and Development
FDI	Foreign Direct Investment	RGES	<i>Régimen de Garantías Explícitas de Salud</i> (Regime of Explicit Health Guarantees)
FEES	<i>Fondo de Estabilización Económica y Social</i> (Social and Economic Stabilization Fund)	SEGPRES	<i>Ministerio de la Secretaría General de la Presidencia</i> (Ministry General Secretariat of the Presidency)
FONASA	<i>Fondo Nacional de Salud</i> (National Health Fund)	SFLAC	Spanish Trust Fund for Latin America and the Caribbean Region
FRP	<i>Fondo de Reserva de Pensiones</i> (Pension Reserve Fund)	SIAF	<i>Sistema de Innovación Agroalimentario y Forestal</i> (Sub-system of Agro-Food and Forestry Innovation)
FSAP	Financial Sector Assessment Program	SICEX	<i>Sistema Integrado de Comercio Exterior</i> (Integrated System of Foreign Trade)
FY	Fiscal Year	SIGFE	<i>Sistema de Información para la Gestión Financiera del Estado</i> (Integrated Financial Management System)
GDP	Gross Domestic Product	SME	Small and Medium Enterprise
GEF	Global Environment Facility	TAL	Technical Assistance Loan
GOC	Government of Chile	TOR	Terms of Reference
HOI	Human Opportunity Index	WBG	World Bank Group

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CHILE

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EXECUTIVE SUMMARY

Chile is an upper middle income country with one of the most politically stable systems in Latin America, strong institutions and a solid record of economic growth during the last two and a half decades. President Sebastián Piñera took office on March 11, 2010, ending 20 years of continuous governments led by the *Concertación*, a coalition of center-left parties. Despite the differences in political stance, President Piñera is committed to the continued support of the core policy framework established by previous governments, while also promoting reforms to boost growth and tackle poverty and inequality.

The success of Chile's economy can be attributed to continuity in sound macro policies, an open trade regime, and a business-friendly environment. Successful macro policies include the adoption of an inflation targeting regime and countercyclical fiscal policies. Fiscal policy sustainability has been enforced by a fiscal rule that insulates public spending from fluctuations in the price of copper and the business cycle. This policy framework allowed for a vigorous countercyclical response to the 2008/09 global financial crisis, which cushioned the blow from the sharp reduction in trade volumes and export prices. As a result of the continued reduction of barriers to trade, the establishment of free trade agreements with many of its main trading partners, and a strong business climate environment, Chile has managed to make trade and investment key engines of growth.

Chile faces two key challenges going forward: declining growth performance and high inequality. Chile's growth has slowed down from an average of 7.6 percent during the period of 1986-1997 to 3.5 percent in the period of 2000-2009. Productivity growth has been trending downward through much of the last decade and overall investment levels have also declined since the late 1990s. The second challenge relates to the need to tackle inequality. While Chile has made substantial progress in reducing poverty (15 percent in 2009), the average income of the richest 20 percent of Chileans was 12 times that of the poorest 20 percent in 2009.

The new Government of Chile has launched an ambitious development agenda which sets the basis for the country's ultimate goal of achieving high-income developed status by 2018. The three strategic areas that the Government of Chile plans to emphasize during 2010-14 are: i) achieving greater competitiveness, including the modernization of the state; ii) improving job creation and job quality; and iii) promoting investment. In addition, the government is committed to other important reforms aimed at strengthening social policies and protecting the environment.

This Country Partnership Strategy (CPS) builds on the successful experience of the prior World Bank Group strategy in Chile. The strong institutional framework, a stable economy, and the relatively advanced development level facilitate an engagement in which the Bank's value added lies mainly in the knowledge agenda. In a context of low financing needs and abundant access to capital markets at low spreads, Chile's demand for Bank services concentrated on the provision of technical assistance and other knowledge products in areas in which the Bank has a comparative advantage and can support the country's drive to achieve its development goals. Moreover, for the Bank, this is an important two-way investment, as Chile's development experiences of the past decades are highly valued among other clients and

continued engagement should allow for important spillovers into World Bank work in other countries, as well as deepening South-South exchanges.

This CPS aims to support the Government of Chile's vision of eradicating extreme poverty by 2014 and becoming a developed country by 2018. This support will be carried out through focused intervention in specific themes that have been distributed into three results areas that broadly coincide with the government's development agenda: (i) Public Sector Modernization, (ii) Job Creation and Equity Improvement, and (iii) Promoting Sustainable Investments.

The Strategy includes a flexible program to be carried out mainly through demand-driven studies and a small lending and grant portfolio. The CPS would span 6 years, subject to continued stable macroeconomic environment and Chile's continued status as a client country. The bulk of the knowledge work will be delivered through studies structured around a Joint Studies Program funded jointly by the Bank (US\$400,000 per year) and the Government of Chile (up to US\$800,000 per year), with the possibility of additional just-in-time assistance through fee-for-service. In addition, the Bank will continue providing some limited financing for projects where the Bank's support adds value in the implementation of policies in selected areas.

The International Finance Corporation (IFC) will continue to seek investments in Chile in order to support investments in those areas where the Corporation can provide value added. The main objective will be to foster greater entrepreneurship in advanced fields or in developing innovative business models in a narrow range of sectors. Investments will be focused initially on tertiary education, vocational training, infrastructure and energy, and financial services.

I. INTRODUCTION

1. This document describes the Country Partnership Strategy (CPS) with Chile for FY11 to FY16.¹ The CPS has been designed to respond to the demand from the new Government of Chile (GOC) in tackling its main goals through strategic knowledge activities (analytical work and technical assistance) in areas in which the Bank can provide value to a sophisticated middle-income country (MIC), and a small lending program for implementation support in selected areas. For the Bank, this is an important two-way investment, as Chile's development experiences of the past decades are highly valued among other clients and many of its current challenges should allow for important spillovers into World Bank work elsewhere. This CPS provides a summary of the country context and current challenges, the GOC's proposed plan, lessons learned from the previous CPS and the proposed strategy for the World Bank Group in Chile.

II. COUNTRY CONTEXT

A. Political Context

2. The Government of President Sebastián Piñera took office on March 11, 2010, after twenty years of different governments held by the *Concertación*, a coalition of center-left parties. President Piñera campaigned on a platform that reflects the challenges of an upper MIC like Chile which has enjoyed nearly three decades of uninterrupted growth and rising levels of welfare for the majority of its citizens, putting it at the top of the Latin America and the Caribbean (LAC) rankings and into the exclusive list of Organization for Economic Co-operation and Development (OECD) members. His platform focused on carrying out substantial public sector reforms in order to reduce unemployment, poverty and inequalities, and to boost investment levels.

3. President Piñera was elected in a second round run-off in January, 2010, although his center-right coalition (*Coalición por el Cambio*) did not obtain a Congressional majority in the legislative elections held in December 2009. Chile has a presidential political system with a bicameral legislature. The constitutional presidential term is four years and immediate re-election is not allowed. The *Coalición* obtained 16 of the 38 seats in the Senate (the upper house), compared with 19 for the *Concertación*, and 57 seats in the 129 seats of the Chamber of Deputies (the lower house). The next Presidential and legislative elections will be held in December 2013.

4. Chile has built strong democratic institutions during the past two decades based on an efficient civil service and good governance. This solid institutional platform has allowed Chile to successfully withstand two large adverse shocks since 2008—the global financial crisis and the devastating earthquake of February 2010. Chile's resilience has been underpinned by its strong policy framework and public management. President Piñera, a highly successful businessman, has committed to continue with most aspects of the core policy framework

¹ The prior CPS, which covered FY07 to FY11, was discussed at the Board in June 2007. The CPS Progress Report was submitted to the Board in October 2009.

sustained by the center-left coalition during its two-decades in power. Despite changes in the governing coalition, tensions between the new government and the parties of the *Concertación* are unlikely to affect political and social stability due to Chile's strong institutions.

B. Recent Economic Developments

5. Chile has been among the best performing economies in LAC since 1985. As a result of this accomplishment, income per capita was US\$9,809 in 2009, the highest among the larger economies of the region. A vibrant private sector, substantial job creation and strong social programs have also led to rising welfare levels and declining poverty rates. Only 15 percent of Chileans were under the poverty line in 2009, one of the lowest rates in the region.

6. The long term success of the Chilean economy is explained by the continuity of strong macroeconomic policies, an open trade regime and a business-friendly environment. On the macro front, the policy framework has been based on an inflation targeting framework and countercyclical fiscal policies. Fiscal policy sustainability has been enforced by a fiscal rule that insulates public spending from fluctuations in the price of copper and the business cycle. Chile committed to a Central Government (CG) structural balance target of 1 percent of GDP since 2000. This commitment was complemented by the 2006 Fiscal Responsibility Law, which channels fiscal surpluses into two investment funds, the Pension Reserve Fund (FRP) to meet rising pension commitments from 2016 onwards; and a Social and Economic Stabilization Fund (FEES).² Economic growth has been sustained in great part by growing exports, a result of a sustained trade policy framework of low tariffs and trade barriers, the approval of free trade agreements with partners such as the U.S., European Union (EU), China, and Mexico, and a strong business climate environment.³ A pending challenge is the diversification of the composition of exports, as copper continues to dominate Chilean shipments, accounting in 2009 for over 50 percent of the total value of exports.

7. There have been concerns about some loss in growth dynamism over the past decade. While the Chilean economy has grown at a dynamic average pace of 5.4 percent since 1985, there has been a noticeable slowdown in the past decade, with growth averaging only 3.5 percent in the 2000-09 period. This deceleration has occurred despite global economic developments exceptionally favorable for Chile since the early 2000's such as the rapid growth in international trade and higher prices for copper and other key exports. Observers attribute this decline in growth levels to a decline in productivity and to some reduction in overall investment levels.

8. The global financial crisis affected the Chilean economy strongly starting in the second half of 2008, but the economy's resilience was demonstrated with the vigorous rebound that took place in 2010. In the second half of 2008, the economy slowed down, as global demand for Chilean exports declined and the terms of trade deteriorated (see Table 1).

² The FEES replaces the Copper Stabilization Fund. During periods of adverse terms of trade shocks, the resources of the FEES will be available to maintain fiscal spending.

³ Chile's business environment is among the friendliest in LAC, ranking consistently among the top countries regularly in the Doing Business indicators as well as in several other business environment and competitiveness rankings.

Real GDP growth slowed to 3.7 percent in 2008 while economic activity contracted by 1.5 percent in 2009. The vigorous fiscal stimulus financed by the savings accumulated in previous years of high copper prices (see Box 1), along with substantial monetary easing, supported an early recovery of economic activity starting in the last quarter of 2009. However, disruptions related to the devastating February 2010 earthquake (see Box 2) led to a decline in growth by 1.5 percent in the first quarter of 2010. However, economic recovery resumed forcefully in the second quarter of 2010, when GDP registered a 6.5 percent quarterly expansion. Driven by reconstruction-related expenditures and investment, Chile's economy is expected to grow by about 5 percent in 2010 and to recover further in 2011.

Table 1: Key Economic Indicators.

Chile: Key Economic Indicators							
<i>in percent, unless otherwise stated</i>							
	2004	2005	2006	2007	2008	2009	Est. 2010
National Accounts							
GDP growth	6.0	5.6	4.6	4.6	3.7	-1.5	5.0
Domestic demand growth	7.5	10.4	6.8	7.6	7.6	-5.9	13.4
Population (millions)	16.1	16.3	16.5	16.6	16.8	17.0	17.1
Balance of payments							
Current account (% of GDP)	2.2	1.2	4.9	4.6	-2.1	2.6	-0.7
Trade balance (% of GDP)	10.0	9.1	15.5	14.6	5.2	8.6	7.3
Exports of goods (% of GDP)	34.0	34.9	40.0	41.4	38.9	33.2	34.4
Imports of goods (% of GDP)	24.0	25.8	24.5	26.8	33.7	24.6	27.1
Net international reserves (US\$ bn)	16.0	17.0	19.4	16.9	23.2	25.4	25.4
Net international reserves (% of Short term external debt)	214.9	239.2	208.5	152.9	155.3	145.1	145.1
Terms of trade (deterioration -)	22.1	11.1	32.2	3.7	-14.0	2.9	12.6
External indicators							
Total external debt (% of GDP)	45.8	38.4	32.7	34.4	37.6	45.8	38.6
Inflation							
Annual change in CPI (eop)	2.4	3.7	2.6	7.8	7.1	-1.4	3.7
Fiscal (Central government)							
Overall balance (% of GDP)	2.1	4.6	7.7	8.2	4.3	-4.4	-1.7
Structural balance (% of GDP)	1.0	0.9	0.7	1.0	-0.4	-3.3	-4.1
Public debt (% of GDP)	36.1	34.9	25.7	28.8	27.3	27.7	26.2
Copper reference price (US\$/lb)	130	167	305	323	316	234	315
Note: (Est.) Estimations.							
Source: Banco Central de Chile, DIPRES, World Bank and IMF staff estimations.							

Box 1. Chile's response to the financial global crisis

Fiscal Policy

November 2008 Fiscal stimulus package of \$1.15 billion and January 2009 Fiscal stimulus package of US\$4 billion included:

- Increase in public spending by 1 percent of GDP, mostly for infrastructure, human capital investment, and a lump sum transfer to poor families;
- Temporary tax rebates in the amount of 1 percent of GDP to ease firm financing constraints;
- Re-capitalization of the state-owned copper company, Codelco, for US\$1.0 billion;
- Labor and social policies included in this package target:
 - Extension of the coverage period for unemployment insurance and increases in subsidy level
 - Introduction of a subsidy on youth employment
 - Increased coverage under *Chile Solidario*
 - One-time \$60 subsidy per dependent child for vulnerable families

Monetary Policy

Fast-paced monetary easing: Central Bank cut interest rates by 775 bp from 8.25 percent in January 2009 to 0.50 percent in July 2009.

Complementary Policies (*Iniciativa Pro Crédito*):

In March 2009 authorities proposed administrative measures aimed at boosting credit and competition in the financial system; these measures were projected to expand credit to the private sector by some US\$3.6 billion at limited fiscal cost. Measures included:

- Provision of additional room for insurance companies to participate in domestic loan markets;
- Boosting financial options to people and businesses by expanding the size and operations eligible for government-sponsored credit programs and guarantees;
- Elimination of capital gains taxes on new bond issuances.

Source: World Bank staff.

C. Poverty Profile and Trends

9. Throughout the last twenty years, extreme and moderate poverty have been falling in Chile. Indeed, Chile led the LAC region in poverty reduction in the 1990-06 period. Moderate poverty decreased from 19 percent in 2003 to 14 percent in 2006 at the national level whereas extreme poverty diminished from 5 to 3 percent. While poverty within indigenous groups (estimated population of 700,000) has also had a downward trend, still, about 30 percent of the households represented by these groups were living below the poverty line in 2008.⁴

10. The 2009 information from the household survey suggests a small increase in poverty. The most recent household survey (CASEN, 2009) reveals a small increase of the poverty rate to 15.1 percent and that for extreme poverty to 3.7 percent. Results indicate a more rapid rise in urban areas than in rural areas. There has been a growing debate about the quality of these statistics and the government is reviewing the methodologies used to estimate the number of poor in Chile.

⁴ Poverty and Inequality among Ethnic Groups in Chile, Claudio A. Agostini, Philip H. Brown, and Andrei Roman, <http://www.economia.uahurtado.cl/pdf/publicaciones/inv205.pdf>.

Box 2. Government's plan to finance the earthquake reconstruction

Chile was hit by a massive 8.8 magnitude earthquake in the early hours on 27 February 2010, which claimed about 300 lives, displaced about 2 million and caused significant damage to private property and public infrastructure. The epicenter was located in waters off the southern coastline, close to the city of Concepcion and 200 miles south of the capital Santiago. Coastal areas were also impacted by a tsunami and several strong aftershocks (up to 5.9 on the Richter scale). The coastal regions of Maule and Biobío were the hardest hit.

Estimates of Reconstruction Costs

Reconstruction costs have been estimated at around US\$29.7 billion. Infrastructure costs are estimated at US\$21.0 billion, while damages to the industry and retail sectors are projected at US\$5.3 billion. The estimated GDP loss is about US\$7.6 billion. The authorities estimated that the government's share of the reconstruction costs would be around US\$8.4 billion (4 percent of GDP) over 2010-2013.

Government's plan to finance the reconstruction

On March 19, 2010, the finance minister, Felipe Larraín, indicated that the reconstruction would be financed through a combination of sources in order to mitigate adverse effects on the exchange rate and interest rates. The "Reconstruction Fund" is being financed from the following sources:

- Insurance reimbursements;
- Improved efficiency and reallocation of spending. The Government plans budget reallocations worth US\$700 million;
- Bond issuance. In July 2010 Chile issued two 10 year global bonds for about US\$1.5 billion.
- FEES: The government would also use savings (sovereign wealth fund) to pay for reconstruction cost and finance the fiscal shortfall.⁵
- Temporary tax increases: In order to raise revenue for reconstruction, the government established a tax on cigarettes. Temporary tax increases would help avoid an undue compression of spending in the near term, and would be combined with a productivity-enhancing reduction in the stamp tax on financial transactions and some tax breaks for small and medium size enterprises. In this regards, the Congress recently approved a government proposal to raise taxes to mining companies, which would raise about US\$1 billion over three years to help fund earthquake reconstruction and the GOC's education and health programs.

Source: World Bank staff.

11. Income inequality is still high, though social expenditure plays an important role in reducing disparities. In spite of sound economic growth and targeted policies like the *Chile Solidario* Program, no significant changes in income inequality have occurred since the 1990s. The average income of the richest 20 percent of Chileans was 12 times that of the poorest 20 percent in 2009, a small change from the ratio of 13 times recorded in 1990. However, a number of government programs (such as direct transfers, health and education subsidies) continue to supplement the income of poor families. The ratio falls from 12 times to 7 times in 2009, once these interventions are taken into account.

⁵ As of the first quarter of 2010, the Economic and Social Stabilization Fund (FEES) had an allocation of US\$ 11.3 billion.

12. Chile is a LAC leader but lags behind OECD standards regarding the Human Opportunity Index (HOI).⁶ Chile leads the ranking of HOI among 19 LAC countries regarding a common set of five very basic services: sixth grade completion on time; school attendance of children aged 10-14; access to sanitation; access to water, and access to electricity. In some of these areas, the level attained by Chile in 2006 was below the level more developed OECD countries achieved decades ago. For example, the HOI for completing sixth grade on time for Chile in 2006 was below the HOI for the US in 1960, prior to the civil rights movement in this country. Similarly, the HOI for access to sanitation in Chile in 2006 was below the HOI for the US in 1970. Regarding more demanding opportunities Chile's HOIs in educational achievement are well below all 10 European and North-American OECD countries included in a comparative exercise.

13. Studies show that Chile has made substantive progress on gender equity in terms of opportunities, the law and voice, but it lags in access to employment, income, and participation in political decision processes. Thus, even though women and men have the same number of years of schooling (11.7 for the age group 25-39), women make up only 37 percent of the labor force and their average wage is only 67 percent that of men. Only 26 percent of women in the lowest income quintile in Chile participate in the job market as compared to 57 percent in the highest quintile. In 2009, women occupied only an average of 12.6 percent of all the seats in the legislative as compared to 21.5 percent average in the LAC Region. During the tenure of President Michelle Bachelet, a gender parity policy led to a substantial increase in female staff, especially in higher level positions in the Government. More recently, the *Chile Crece Contigo* program provides access to childcare for the women in the bottom two quintiles who are currently working, searching for work or studying.

D. Economic Prospects

14. Chile's economy has proven to be more resilient than other emerging market economies in LAC and elsewhere and is recovering rapidly from the effects of the global crisis. This greater resilience is linked to Chile's robust macroeconomic framework, which rests on three, mutually re-enforcing, pillars: (i) a responsible and predictable fiscal policy based on a transparent fiscal rule; (ii) a monetary policy conducted by an independent central bank which uses an inflation targeting regime (CPI target of 3.0 percent with a tolerance of +/- 1 percent), complemented by a floating exchange rate; and (iii) a solid financial system. In the short-term, growth and domestic demand is likely to be boosted by consumer and investment confidence and the reconstruction program, as well as the recovery in copper prices and export volumes.

15. But Chile is not immune to economic shocks and some vulnerabilities persist. Even though many new export products have emerged in recent years and the destination of shipments has been diversified, copper revenues still account for a large share of merchandise exports (over 50 percent in 2008-09 due to high international prices) and more than 30 percent of its imports are oil, fuels and food. Economic performance therefore continues to be affected by relative

⁶ The HOI measures the percentage of available opportunities needed to ensure children's universal access to basic services and their allocation based on the equality of opportunity principle. The HOI ranges from 0 (absolute deprivation) to 100 (universality). Molinas, Paes de Barros, Saavedra, and Giugale (2010). "Do Our Children Have a Chance? The 2010 Human Opportunity Report for Latin America and the Caribbean". Conference Edition. Washington, DC: World Bank.

changes in commodity prices. In addition, as an attractive investment destination and given the large liquidity in international money markets, Chile, like other leading emerging markets, may suffer from excessive capital inflows in the short term that could put pressure on the exchange rate and affect the competitiveness of some tradable sectors. Furthermore, even if the fiscal position of the government remains strong due to a low public debt profile and a cushion of over US\$15 billion worth of copper boom savings, a change of financing constraints could affect private sector ability to repay its external debts.

16. The scenario described below focuses on the short and medium-term outlook. It incorporates the impact of the 2008-09 crisis as well as the effects of the February 2010 earthquake, the economic recovery from 2010 and prospects for the global economy as well as recent Central Bank foreign exchange position policy measures (see Table 2). The CPS baseline macro projections are summarized as follows:

- *Growth and inflation.* Given the strong economic recovery underway, real GDP is expected to expand by 5 percent in 2010, reach 6 percent in 2011 and converge to 4.5 percent in the long-run. Private consumption and private and public investment, are expected to sustain domestic demand growth in the short-run. After a sharp contraction in industrial production in March 2010 (-17.4 percent annually) reflecting the impact of the earthquake, manufacturing activity has shown signs of recovery since May 2010 (with an average annual rate of 4.3 percent during May-August). The rapid recovery of domestic demand has boosted imports and contributed to some domestic inflation. With diminishing spare capacity in the economy, inflation is expected to rise to about 3.7 percent by the end of 2010, and to return to the 3 percent medium-term target in 2011 and beyond.
- *Fiscal accounts.* After posting primary fiscal surpluses between 2003 and 2008, the Central Government overall fiscal deficit reached 4.4 percent of GDP in 2009, mainly due to increased spending associated with the countercyclical fiscal stimulus and falling copper and non-copper revenues. With the rebound in growth and higher copper prices, public finances recovered slightly in 2010. The deficit is expected to narrow to 1.7 percent of GDP, reflecting a recovery in tax revenues from both the mining and non-mining sectors and lower current expenditure due to the end of several temporary stimulus measures adopted in 2009. The central Government deficit is expected to decline to 0.6 percent of GDP in 2011 and return to almost a balance by 2014. The structural deficit is targeted to converge to 1 percent of GDP in 2014.
- *External accounts.* The external current account is projected to shift from a surplus of 2.6 percent of GDP in 2009 to a deficit of 0.7 percent of GDP in 2010 and 2.0 percent of GDP in 2011, as net import growth strengthens. In the long-term the current account deficit is expected to stabilize at around 2.5 percent of GDP. Foreign Direct Investment (FDI) is expected to increase in the short and medium-term. Gross international reserves reached US\$25.4 billion in 2009, 9.5 percent higher than in 2008 and are expected to increase by US\$ 12 billion during 2011 as a result of the recently announced program to strengthen foreign exchange liquidity, and remain stable during the remaining projection period, as the Central Bank maintains its flexible exchange rate regime.

- Monetary accounts.* Monetary policy has moved to a tightening stance since June 2010, as financial conditions eased and credit growth resumed. In October 2010, Chilean policy makers raised the benchmark rate (from 2.5 percent to 2.75 percent) for the fifth straight month as the economy's recovery fueled concern that consumer price inflation this year may exceed Central Bank targets. Further monetary tightening may involve tradeoffs in an environment of high international liquidity and strong appreciation pressures on the Chilean peso. After depreciating by 17.6 percent in 2008, Chile's *real exchange rate* appreciated during 2009 by 15.6 percent and by another 3 percent in 2010. Moreover, the *nominal exchange rate* has appreciated by 27 percent during 2009-2010 (17 percent since the end of June) reaching \$466.05 pesos per dollar in January 4, prompting the Central Bank to launch a massive program of dollar purchases aimed at strengthening its foreign exchange liquidity and reducing appreciation pressures on the peso. Starting January 5 and until December 2011 the Central Bank will gradually buy an additional US\$12 billion, following a similar policy used two years ago when the peso reached \$465.8 against the dollar. The Central Bank will sell bonds to drain the equivalent amount of cash from the economy. The Central Bank announced that it will purchase US\$50 million a day from Jan. 5 to Feb. 9 and will announce further plans later.

Table 2: Economic Prospects

Chile: Economic Prospects						
<i>in percent, unless otherwise stated</i>						
		Est.		Proj.		
	2009	2010	2011	2012	2013	2014
National Accounts						
GDP growth	-1.5	5.0	6.0	4.6	4.5	4.5
Domestic demand growth	-5.9	13.4	6.9	5.9	5.0	4.7
Population (millions)	17.0	17.1	17.3	17.5	17.6	17.8
Balance of payments						
Current account (% of GDP)	2.6	-0.7	-2.0	-2.1	-2.3	-2.3
Trade balance (% of GDP)	8.6	7.3	8.3	7.8	6.3	5.0
Exports of goods (% of GDP)	33.2	34.4	35.2	36.1	35.0	33.4
Imports of goods (% of GDP)	24.6	27.1	26.9	28.3	28.7	28.4
Net international reserves (US\$ bn)	25.4	25.4	37.4	37.4	37.4	37.4
Net international reserves (% of Short term external debt)	145.1	145.1	214.0	214.0	214.0	214.0
Terms of trade (deterioration -)	2.9	12.6	4.6	-2.4	-4.1	-4.2
External indicators						
Total external debt (% of GDP)	45.8	38.6	35.1	32.6	30.9	29.1
Inflation						
Annual change in CPI (eop)	-1.4	3.7	3.0	3.0	3.0	3.0
Fiscal (Central government)						
Overall balance (% of GDP)	-4.4	-1.7	-0.6	-0.5	-0.4	-0.2
Structural balance (% of GDP)	-3.3	-4.1	-3.0	-2.5	-1.8	-1.0
Public debt (% of GDP)	27.7	26.2	25.4	24.0	22.6	21.3
Copper reference price (US\$/lb)	234	315	327	330	299	270
Note: (Est.) Estimations. (Proj.) Projections.						
Source: Banco Central de Chile, DIPRES, World Bank and IMF staff projections.						

17. The recovery under way is likely to extend into the medium term, but Chile is not immune to economic shocks and the economy remains vulnerable. Current projections suggest that over the long-term the economy will settle on a growth rate of 4.5 percent per year. However, relative changes in commodity prices and the pace of the global recovery exert a strong effect on economic activity. Excessive capital inflows can also exert strong appreciation pressures on the Chilean currency that could affect export incentives. Chile's track record of timely and well structure economic policy suggest that the country will be able to tackle these issues successfully. However, in order for the economy to grow at a higher rate, 6 percent as expected by the incoming government, the authorities face several challenges that are discussed next.

E. Development Challenges and Opportunities

18. Chile's substantial development achievements have led to new challenges that the country is currently facing in order to boost economic growth and eliminate extreme poverty. Primary challenges to achieve this vision are related to increasing competitiveness and opportunities for all through public sector reforms, creating new employment opportunities and improving the quality of jobs, and increasing investment, particularly in infrastructure by promoting private sector financing as well as direct investments. In addition, the Government is committed to strengthening social policies that target the poor and protecting the environment.

Public Sector Modernization

19. Chile faces two fundamental challenges in the public sector. The first set of challenges arises from public sector rules and performance that constrain greater competitiveness and productivity in the private sector. The second refers to the need to improve the quality and, to a lesser extent, the coverage of public services. Given that Chile has already made progress on both fronts, the country faces the challenge of introducing reforms that are of a higher complexity than those implemented in prior generations. In addition, the public sector reforms will be subject to tighter transparency criteria under the country's Access to Information legal and institutional framework.

20. Despite strong macroeconomic fundamentals, fairly efficient public sector management, and sophisticated business sector, a sustained 6 percent growth in the long-term calls for conditions that foster productivity growth. Chile remains the most competitive country in LAC (top 30th most competitive economies in the world, according to the Global Competitiveness Report)⁷, but the country lags, according to this Report, with respect to the most advanced nations in several areas that include innovation potential, availability of skilled workforce, dynamism of competitive markets, and efficiency of public management. Educational attainment rates have increased significantly, but quality remains weak (Chile ranked 101st for primary education and 45th for higher education and training at the Global Competitiveness Report). The delivery of public services are relatively good compared with other LAC economies, but challenges still persist in the areas of accountability of public institutions,

⁷ Global Competitiveness Report 2010-12.

efficiency of performance management systems, and decentralization. On the financial sector, Chile faces challenges to broaden and deepen its domestic capital market in order to facilitate investment, while preserving sound financial regulation.

21. Chile enjoys relatively good public services, when compared to neighboring countries, but there is a perception that better services could be delivered with the same resources. In order to improve the provision of public services the following challenges need to be addressed: (i) the need for strengthening accountability of public institutions, in particular public services, through improved and publicly available monitoring and evaluation systems; (ii) the review of the overall existing performance management system; and (iii) the need to decentralize to lower levels of government and the division of responsibilities in the service-delivery chain. While the Government aims to work on the various public services, it has identified the health sector as the first one to be addressed. A first take in this sector shows that while there is adequate financial protection, there seem to be some systemic problems in the health sector. These include: (i) quality and readiness of the health information system; (ii) the need to make the Health Superintendency more independent; (iii) design and implementation of an adequate monitoring and evaluation (M&E) system and, (iv) improvement of the National Health Fund (*Fondo Nacional de Salud, FONASA*) in carrying out its main objective of financing health services.

Job Creation and Equity Improvement

22. Despite significant improvements in poverty reduction through social policy, high inequality and low social mobility remain a challenge. The current administration approach to this challenge is to increase the country's attention on the quality of education from early childhood to tertiary education and job skills training as a basis to raise competitiveness. To do so, it will build on the reforms introduced by previous administrations. These efforts are already showing results as Chile improved its ranking between 2006 and 2010 in mathematics, reading, and science in basic education according to the Programme for International Student Assessment (PISA). Further efforts will help Chile close the gap with the bulk of OECD countries.

23. Chile has embarked on a number of bold reforms aimed at improving the quality and increasing the relevance of the education system. At the pre-school, primary and secondary levels, the new General Education Law and the Proposal on the National Education Quality Assurance system include: i) major institutional reforms to establish system-wide quality assurance and to provide additional public funds to schools serving low-income students; ii) the establishment of a teacher performance evaluation system, mandatory for municipal school teachers, and improvements to teacher preparation and in-service professional development; and iii) the launch of an information and communication technology (ICT) core strategy to improve the quality of education through the application of digital technologies. Moving ahead, the challenge is to implement the new organizational framework set out in the General Education Law, assuring key functions and their distribution across public agencies. In particular, the Law calls for the creation of two institutions that still remain to be launched: The Agency of Education Quality, to evaluate student and school performance, and the Superintendency of Education, to ensure school compliance with statutory regulations.

24. At the tertiary level, Chile has expanded student finance, refined its accreditation system and expanded its use of performance-based financing, but efficacy and sustainability still remain a challenge. The country has an innovative loan program (the Law of the Preferential School Subsidy) aimed at improving learning of low-income students by providing additional resources to the schools that serve them and holding those schools accountable for learning outcomes. However, a substantial portion of resources continue to be allocated based on historical arrangements, rather than performance-based criteria. Finally, the *Chilecalifica* program has developed the basis for a national system of certification of labor competencies and established a foundation for a Lifelong Learning System with the objective of raising the skill level of the labor force and aligning the provision of training to changing labor market demands. In all these programs, an evaluation of the experience so far in light of the lessons from international experience can help improve the efficacy and sustainability of these initiatives.

25. Pioneering public policy reforms have resulted in the gradual establishment a System of Social Protection. The limited improvement in poverty and stagnation of inequality during the 1990's motivated reforms that included the launching of *Chile Solidario* in 2002, laws relating to Pension Reform, the institutionalization of the Integrated System of Social Protection and *Chile Crece Contigo*, improvements in unemployment insurance and the creation of an employment subsidy scheme. An important additional institutional innovation has been the Integrated System of Social Information, a national computerized technological platform that registers stores and processes information on socioeconomic conditions of the priority target population of social programs, services and transfers at the local level. The new government envisions bringing to scale a broader approach to social protection which will focus on risk mitigation for the most vulnerable.

Promoting Sustainable Investment

26. Substantial investments in infrastructure are foreseen to support the higher rate of economic growth. The challenge for Chile is to maintain the quality of infrastructure, one of the most developed in Latin America. The estimate is that over the coming year the investment in infrastructure will amount to around US\$20 billion in all sectors critical to economic growth: transport, energy, water and sanitation, and agriculture. Most of these investments will be undertaken by the private sector through concessions. In addition, public investment of around US\$6 billion will go to those areas where concessions are not viable, particularly in rural areas.

27. Adequately linking areas of production and processing with export gateways remains a major challenge owing to Chile's geography (6,500 km length and approximately 175 km width). To enhance its multimodal transport system, Chile plans to modernize its logistics system and remove existing bottlenecks. This modernization process will probably involve substantial private sector participation through the current concessions model, which has shown to be successful.

28. Chile has begun to address the challenges of urban congestion, traffic safety, and transport related air quality problems. In 2007, the GOC initiated the *Transantiago* project to transform Santiago's public transport system from a relatively informal and fragmented service

provision sector to a professionally operated integrated city-wide network, with the ultimate purpose of reducing traffic congestion and providing greater access to public transportation. Implementation of the project met serious start-up problems and today efforts continue to reduce the system's deficit in the city through measures that improve efficiency and include reducing costs, curbing fare evasion, continuing with fare increases or finding other financing sources, such as revenues from a possible congestion charge or other pricing instruments. Aside from large cities, such as Santiago, challenges range from marginally regulated public transport service provision, fragmented and informal sector, lack of adequate services in off-peak and night periods, to a very old and polluting public transport fleet.

29. Chile's well functioning energy sector has supported the rapid growth of the economy, but the sector remains a source of vulnerability for the economy. The privatization and liberalization of its electricity sector in the 1980s set the foundation for a competitive energy sector, which is often used as a model for other countries. However, the Chilean energy sector's heavy dependence on imported fossil fuels (oil, natural gas and coal) raises concern about energy security and the vulnerability of the economy. Investments in hydropower can help reduce vulnerability and meet growing demand, given the considerable potential of the country. According to projections made by the *Comisión Nacional de Energía* (CNE), more than one-third of the capacity expansion by 2020 can be delivered by conventional hydroelectricity projects. Still, one of the main challenges in the development of hydroelectric power plants will be the increased competing demands for scarce water resources.

30. While the Government can continue to rely on the private sector for major infrastructure investments, the public investment planning agenda is expected to focus more on rural regions with high poverty levels. Some of these regions were heavily affected by the earthquake and the tsunami in February 2009 where reconstruction continues. However, the highest obstacle to reach these rural communities is the traditional economic evaluation of individual infrastructure projects. Furthermore, the prioritization of these investments remains weak as most of the investment in infrastructure is allocated through sectoral agencies that often do not respond to local and regional priorities. There has been some progress in this regard through the territorial developing planning approach under the development of Territorial Development Planning Frameworks (PMDTs). The government has implemented five Frameworks to date, covering investments in roads, water and sanitation, and energy.

31. Chile is highly exposed to extreme natural events as earthquakes, tsunamis and floods. To manage this disaster risk is one of the most important issues that Chile faces in terms of sustainable development. The impact of the 8.8 magnitude earthquake on February 27, 2010 induced important changes and adjustments for the Government's agenda. In this context, the GOC is developing an agenda based on the lessons learned from the last earthquake to cover disaster risk management issues, which include: hazard and risk assessment projects, early warning systems, risk reduction policies integrated in land use planning, and development of regional and local capacity.

32. Chile seeks to regain its foothold as an important player in global agro-food markets. After a propitious insertion into the global markets, the initial dynamism of the agro-food sector fizzled during the last decade contributing to the decline in productivity growth of

the overall economy. To reverse the trend and generate a productive transformation in the Chilean economy, the Government has launched a growth strategy, which assigns a central role to innovation. As part of that strategy, priority is given to realizing the potential of the sector through the Sub-system of Agro-food and Forestry Innovation (*Sistema de Innovación Agroalimentario y Forestal - SIAF*). In the long term, Chile expects that the proposed measures will lead to increased private sector investment in research and development in the agro-food sector.

33. Management of natural resources in Chile faces difficult trade-offs that are being accentuated by climate change. Efforts at conciliating economic growth with environmental criteria and the sustainable management of natural resources has proven difficult in Chile and today the country is facing critical challenges in water resources management, growing pollution, land degradation and erosion combined with uncertainties of climate change. In addition, the country lacks legislative instruments to regulate environmental protection and preservation thus leading to potential conflicts between different interest groups.

34. The current legal and institutional framework for environmental issues is based on the Environmental Impact Assessment System established in 1997. Most of the sector agencies have relied on the National Commission for the Environment's (*CONAMA*) instruments such as Environmental Impact Studies⁸ which are needed to design appropriate mitigation measures to reduce the adverse environmental impacts of projects. In addition, in January 2009, *CONAMA* presented the National Climate Change Action Plan, for 2008-2012, as a reference framework for climate change impact analysis, vulnerability, adaptation and mitigation. The Action Plan envisions construction of local climate change scenarios by Chile's Meteorological Center, in collaboration with universities and research centers in the country. An important objective of the Action Plan is to establish the level of vulnerability of water resources, and to define the options for their effective use.

35. However, as the claims on water grow, institutional changes in water resources management and overall environmental issues are foreseen. The pressure placed by energy and agriculture as well as urban areas will require revisiting the national water resources policy and strategy, possibly implementing new approaches based on basin management that effectively address the multipurpose uses of water. Already, the concept of hydrographical basin management has been adopted and, as noted above, climate change will be factored in when developing alternative scenarios to evaluate the impact of policies on sustainability.

36. Chile has made recent progress in improving air quality in rapidly growing urban sectors, but challenges remain on health and air pollution issues, particularly in the Santiago Metropolitan Region. Recent policy changes regarding the use of quality of fuels have contributed to reduce the quantity of emitted sulfur from mobile and fixed sources. National laws on environment and air quality have become stricter. Furthermore, air contaminants and new laws for vehicles have been enacted, thus placing Chile close to developed countries such as

⁸ A full Environmental Impact Study is required for projects which pose potential adverse impacts on health, natural resources, entail resettlement of population, are located near protected areas or have a high potential of affecting the scenic value of an area or could potentially alter areas of high cultural or historical value.

the United States and the EU. Air pollution prevention and control in the Metropolitan Region has resulted on selected contaminant emissions and the number of health emergencies due to air pollution exposure. Still, general emission laws for industrial processes and for toxic air contaminant sources (except arsenic in copper smelting) are still missing. In addition, monitoring efforts on air quality and emission inventories are only applied for the main cities and in the zones near the copper smelting plants.

F. Government Priorities and Medium-Term Strategy

37. Upon taking office in March 2010, the new Government's foremost priority was focused on the emergency and reconstruction response to the massive February 27th, 2010 earthquake. The Government's immediate response was to restore order and security in the area, distribute food among the victims and establish field hospitals. Through the winter response stage, 70,000 temporary houses were constructed and 23,000 cash grants were distributed for repairing and reconstructing urban housing units. Another 60,000 cash grants were allocated for employment creation. The earthquake had devastating effects on public and private infrastructure. The Chilean authorities estimated that the government's share of the estimated total reconstruction costs of about US\$30 billion would be in the order of US\$8.4 billion (4 percent of GDP) over 2010-13.⁹ Under the current stage of the reconstruction plan called *Levantemos Chile*, the government will finance the reconstruction of about 200,000 homes, continue with the cash grant program for repairing and rebuilding, and finance the reconstruction of public infrastructure works, such as water and sanitation systems, port facilities, airports, and public buildings.

38. On November 2010, the government launched an ambitious development agenda for Chile, called *Chile País Desarrollado*¹⁰, which sets the goal of achieving high-income developed country status by 2018. The government has set clear targets for the period 2010-14 (Table 3), in order to place the country on a higher level of long-term development path. In addition, the government has established as a long-term goal to eradicate extreme poverty by 2014.

Table 3: Chile's Development Agenda's Targets for 2010-2014

	Targets
Growth	<ul style="list-style-type: none"> • Average GDP growth of 6 percent for the period 2010-13 • Increase investment from 21.4 percent to 28 percent of GDP by 2014 • Increase research and development (R&D) investment from 0.4 percent to 0.6 percent of GDP by 2013 and to 0.8 percent by 2018 • Create 100,000 new enterprises for the period 2010-13
Employment	<ul style="list-style-type: none"> • Create 200,000 new jobs on average annually between 2010-14 • Labor training for 5 million workers between 2010-13
Source: Government of Chile, <i>Chile País Desarrollado: Más oportunidades y mejores empleos</i> (November 2010)	

⁹ IMF Article IV, September 2010

¹⁰ *Agenda Chile País Desarrollado: Más Oportunidades y Mejores Empleos*
http://www.hacienda.cl/documentos/doc/agenda_chile_pais_desarrollado.pdf

39. According to the GOC's agenda, the three strategic areas that the Government of Chile plans to emphasize during 2010-14 are: i) achieving greater competitiveness, including the modernization of the state; ii) improving job creation and job quality; and iii) promoting investment. In addition, the government is committed to other important reforms aimed at strengthening social policies and protecting the environment.

40. In the area of boosting competitiveness for productivity growth, the government's agenda makes a strong emphasis on state modernization as a cross-cutting commitment focused on building a public administration that would better support a high-level economy. Chile's current main challenge in this area is to improve competitiveness and efficiency in the provision of public services towards better services to citizens and investment facilitation. The government has established a series of actions to remove bottlenecks at the public administration and strengthen accountability of public institutions. As part of this, the GOC has proposed better control systems, a stronger civil service, efficient procurement processes, effective corporate governance, and reformed state-owned enterprises. The public sector reform would also encompass a decentralization process that would devolve management of public services to the sub-national levels while ensuring clear definition of responsibilities and accountability mechanisms.

41. In addition to state modernization, the GOC seeks to improve the country's competitiveness through capital market reform, trade facilitation, innovation, better business environment, and market competition. On capital markets, the government has announced a comprehensive reform aimed at strengthening the financial sector's institutional framework—improving market access for small and medium enterprises (SMEs) and developing new markets and financial products to reduce financing costs.¹¹ On trade facilitation, the government plans to implement the Integrated System of Foreign Trade (SICEX) –which will allow simplifying the import and export procedures—,conduct market assessments to take full advantage of its free trade agreements, and introduce measures to increase the country's export capacity and efficiency to compete in new markets. The GOC has also announced incentives to promote R&D investment, several measures to ease businesses, and new regulations for the fisheries and agricultural sectors.

42. In the area of job creation and job quality, the government's efforts will be focused on fostering job opportunities and enhancing labor skills and productivity through improvements in the quality of education and a strong labor training program. The Piñera administration announced a new wave of reforms aimed at refocusing the curriculum on basic math and communication skills, strengthening evaluation and improving incentives for teacher and student performance. Special attention is given to reducing disparities in quality and access to education services and in improving the social protection policy for children. In particular, in the area of early child development, the government will continue to enhance early childhood development through the *Chile Crece Contigo* program, expanded child care services, and an improved nursery education system. At the tertiary education level, the GOC will emphasize incentive schemes for students, educators, and institutions to improve management and results

¹¹ All the reforms are included in the Bicentennial Capital Markets Reform (MKB). For more information visit: <http://www.gobiernodechile.cl/informa/2010/05/06/agenda-mercado-de-capitales-del-bicentenario.htm>

based on standards, and will foster equity in the provision of scholarships and grants. The overall program also includes training programs for educators and better information systems for graduate students to access to relevant labor market data. On labor, the government aims at reforming the labor capacity building program through voucher programs and improved labor intermediation systems to improve the quality and relevance of the training programs. The GOC will also promote better coordination, negotiation processes, and dialogue between employers and employees and will conduct a study to elaborate a methodology for minimum wage adjustments.

43. In the area of investment promotion, the government will seek to improve the business climate to attract higher levels of private sector investment, including FDI, in strategic sectors. The program will include tax incentives (e.g. reinvestments of earnings), tax cuts to reduce financial costs to SMEs, elimination of bureaucratic obstacles to accelerate private investment, and review of regulation to promote FDI and concessions in strategic industries, such as energy. In the long-term it is expected that about US\$50 billion would be invested in the mining sector, particularly in exploration. On the public investment side, the government has committed to promote investment in infrastructure (e.g. roads, irrigation, ports and airports) of about US\$14 billion between 2010 and 2014, which includes US\$8 billion in concessions and US\$6 billion in public investment by the Ministry of Public Works.

44. In addition to the development agenda launched in October 2010, the government's strategy also emphasizes social and environmental policies. In order to help eradicate poverty and reduce excessive inequalities by 2018 the government proposes to create a national minimum income transfer program (*Ingreso Etico Familiar*) that rationalizes existing transfers, and a new law to redesign the Ministry of Planning (*MIDEPLAN*) into a Social Development Ministry, reinforcing its role in the administration, coordination, supervision, and evaluation of the system of integrated social protection policies. Finally, to ensure the long-term environmental sustainability of growth, the government's efforts will be focused on ensuring a successful implementation of the new institutional framework as well as key policies and regulations to address key environmental challenges. The newly created Ministry of Environment will play an important role in developing policies and environmental assessments for investment projects, and in strengthening the Superintendence for the Environment. The government plans to issue new regulations to protect natural areas and biodiversity, modernize the management of natural resources, promote renewable energy, ensure standards on quality of air and water, control transport emissions, and effectively manage solid waste. In addition, the government will conduct assessments to find options to adaptation to climate change and propose mitigation strategies specifically in energy, agriculture, transport, mining, and industry. Some of these actions respond to commitments that Chile has taken to address climate change as a new member of the OECD.

III. BANK GROUP PARTNERSHIP STRATEGY

A. Lessons Learned from previous CPS and Stakeholder Feedback

45. A key lesson from the previous CPS was that a results framework for a CPS must allow the partners to measure the direct contribution of the program. Linking the impact and contribution of the program to progress towards long-term development goals makes it very difficult to assess the World Bank Group contribution in Chile, particularly as this contribution is financially small and covers only selected areas. Thus, the results framework should focus on outcomes at a lower level than broad development goals.

46. The CPS design should be consistent with a flexible approach. The flexible character of the previous CPS program worked well. The success of the Joint Studies Program, with annual programming responding to emerging priorities is perhaps the best example of flexibility, contributing timely inputs to government policy decisions. Fee based services are another example of demand driven cooperation that has worked well. The challenge for the design of the CPS is to embed flexibility within a structured partnership framework. A continuous dialogue on the areas of engagement is necessary, and should include periodic updating of the program to reflect new activities and their expected contribution. In addition, mechanisms are needed to assure the quality of the services provided and products delivered as well as an accurate recording of the results achieved.

47. The Bank should continue making headway in the use of country systems when the risk associated with governance and public finance management in countries are low like they are in Chile. The Bank has relied on country systems for budget preparation and execution, as well as accounting through the country's integrated financial management system (*SIGFE*); and external audit through the Supreme Audit Institution (*Contraloría General de la República*). Financial management performance in active projects has been satisfactory. At the same time, incompatibilities between procurement requirements under World Bank guidelines and national procurement regulations may have impacted implementation of some project components. Thus, the Bank should use the limited number of projects during the CPS to work closely with the client to build better understanding of the Bank's policies and guidelines. While Chile is not included in the use of country systems pilot in procurement, the Bank will continue to work with Chile on continuous improvement of national system (including reliance on components of the system, such as use of framework agreements in *CHILECOMPRA* instead of shopping).

48. Find a way to share Chile's development experience and lessons. Future WBG engagement in Chile should focus on creating mechanism that help channel successful experiences in the transformation that has gone into turning the country into a high middle income country as well as the current efforts to meet the challenges to move to developed income status. In this regard, continued Bank Group involvement with Chile is a two-way investment that has allowed important spillovers into WBG work in other countries in areas such as results-based budgeting, social protection and tertiary education reform.

49. The stakeholder consultation also offered some important inputs for the preparation of this CPS (see Annex 3). There is a generalized vision that the country needs to improve competitiveness and achieve sustainable growth, while reducing inequities and poverty. Stakeholders identified that a key factor to achieve this vision was the quality of education and the development of adequate labor skills. There was also great concern in terms of protecting the environment, particularly the country's scarce water resources, seeking a balance between the expansion of the mining sector and energy industry and sustainable development. Stakeholders also identified that, even though the GOC has done much in terms of reforms, a new stage of state modernization and decentralization is needed in order to achieve more efficient use of resources and ensure voice and accountability at the various levels of government.

50. The client survey, carried out between June and July 2010, also produced similar results. Overall, they identified quality of education as a priority, followed by the need to foster innovation and knowledge. In terms of perception, clients value most the Bank's technical advice and knowledge, asking for greater engagement in the country in this area. Respondents were mainly from government agencies (39 percent) followed by private sector (20 percent) and academia (19 percent).

B. Proposed World Bank Group Partnership Strategy

51. The CPS aims at supporting the Government of Chile's ambitious vision of eradicating extreme poverty by 2014 and becoming a developed country by 2018. Given that both IBRD and IFC interventions under this CPS will be limited in scope and focused in those areas where they can provide value added to the Country, the contributions will be very specific. The bulk of IBRD assistance will be provided through knowledge activities funded both through the yearly JSP and Fee-Based-Services. A small portfolio of new lending operations is planned where GOC is requesting implementation support in selected areas.

52. IFC will continue working in Chile with the objective of fostering greater entrepreneurship. The Corporation will seek investments in companies that are operating in advanced fields or developing innovative business models in a narrow range of sectors, such as, tertiary education, vocational training, infrastructure and energy, and financial services. IFC also hopes to support cross-border investments by Chilean companies in neighboring countries or in other developing countries, given the difficulties many face in sourcing risk-mitigation products and in raising local financing.

53. The Bank Group will carry out activities for which the government or the private sector have expressed explicit demand either through knowledge work or lending. These activities are grouped under three results areas addressing Public Sector Modernization, Creation of Jobs and Improving Equity, and Promoting Sustainable Investments. The first results area, Promoting Public Sector Modernization, covers a share of the Government's Competitiveness strategic area, and concentrates in those aspects where the Bank can provide value added. The second results area, Creation of Jobs and Improving Equity, contributes activities under the Government's strategic area of improving job creation and job quality, but adds the vision on social protection. Finally, the third Results area, Promoting Sustainable Investments, contributes to the Government's strategy on promoting investment, and includes support on environment, in

order to contribute inputs to the country's vision on environmental protection. The actions under these three results areas reflect the current dialogue with the country and, in those cases where activities are knowledge based, deliverables are those planned for FY 2011. New activities will be planned for each fiscal year, in agreement with the GOC. In other cases, timing of deliverables and results will depend on the life of the project. Table 4 provides a summary of ongoing loans and grants, as well as the initial proposed package of activities under this CPS.

Table 4: Indicative Work Program

Areas of Intervention	Current Portfolio	Joint Studies Program (FY11) and FBS*	Proposed Lending **
Public Sector Modernization	<ul style="list-style-type: none"> Public Expenditure Management II SIL, US\$24.8 million Strengthening Chile's Council for Transparency IDF Strengthening the Transparency and Accountability of the Judiciary IDF 	<ul style="list-style-type: none"> Assessment of the Performance Management Incentives Assessment and Recommendations on the Decentralization Law Insurance Sector Review Improvement in the Health Sector Financing Strengthening of the Monitoring and Evaluation System for Social Programs FBS 	<ul style="list-style-type: none"> Social Sectors and Public Policies TAL, US\$20 million (FY12)
Job Creation and Improving Equity	<ul style="list-style-type: none"> Infrastructure for Territorial Development SIL, US\$50.3 million Social Protection TAL Additional Financing, US\$3.0 million 	<ul style="list-style-type: none"> State-Guaranteed Student Loan Program 	<ul style="list-style-type: none"> Tertiary Education Financing for Results APL II , US\$100 million (FY12) Social Sectors and Public Policies TAL, US\$20 million (FY12)
Promoting Sustainable Investment	<ul style="list-style-type: none"> Ministry of Public Works TAL, US\$11.7 million Santiago Urban Transport TAL, US\$4.8 million Urban Transport System redesign for a model city in Chile SFLAC Institutional Strengthening of Mining Sector for Indigenous Peoples Inclusion IDF 	<ul style="list-style-type: none"> Water Resources Assessment Financing Instruments to Finance Urban Transport Projects FBS Review of Challenges and Response of the Agri-food and Forestry Innovation Systems FBS 	<ul style="list-style-type: none"> Infrastructure Project, US\$80 million (FY12)

* Partial list for FY11, more studies are likely to be commissioned on the second half of the FY.

** Amounts are tentative

C. Expected Results and Program of Lending and Non-Lending Activities

Result Area 1: Public Sector Modernization

54. The CPS program aims to support the Government's vision of a modern, more efficient, effective and accountable public sector capable of facilitating increased competitiveness and poverty reduction. The Bank expects to provide value added, mainly through studies and grant financing, in five areas: (i) improving performance and public financial management; (ii) increasing transparency; (iii) strengthening M&E systems; (iv) strengthening of the financial system and capital markets regulation and (v) boosting the efficiency of resources in the public sector, especially in the health sector. Other priority areas in the government's state modernization agenda may be included in the future, where the Bank has strong expertise, such as public sector investment.

1.1 Performance and Public Financial Management

55. The GOC intends to further develop its performance management systems by providing adequate instruments and incentives that should lead to more effective and transparent regulations and management of public resources. The existing performance management system is a complex initiative, involving different instruments, systems and institutions. These instruments include those directly linked to human resources management, such as the Enhancement Management Program (PMG) and the collective agreements, which define a relevant portion of personnel expenditures through variable pay. Other instruments focus on improving effective management of public budget funds, such as monitoring and evaluation, ex-ante and ex-post evaluation of investments and of public policies, comprehensive expenditure and impact evaluations, institutional balance scorecards, strategic definitions linked to the Presidential priorities, the performance agreements of the *Sistema de Alta Dirección*, and the work being started by the Delivery Unit at *SEGPRES*.

56. The GOC has requested the Bank to continue assisting through the Joint Studies Program (JSP), in this area with a focus on: (i) the development of an updated financial management system that can rapidly aggregate and consolidate financial and accounting information, aligning monitoring and financial indicators, so that budget formulation and execution can be evaluated and monitored; (ii) an assessment of current incentives schemes linked to results in the public administration and recommendations on incentives and mechanisms to improve management and accountability; (iii) an evaluation on current decentralization processes and recommendations to improve management, accountability and results at the municipal level; and, (iv) assessment of institutional and individuals incentives for the provision of health and education services and recommendations on improving efficiency in both sectors.

1.2 Transparency

57. The GOC continues to place great emphasis on transparency as part of the modernization of the public sector, and the adoption of the Access to Information Law (August 2008) is a significant step in this direction. The Bank will continue to support the

improvement of transparency and accountability of Chilean public institutions, through two Institutional Development Fund (IDF) Grants, by strengthening the recently established Council for Transparency, supporting the implementation of the Access to Information (ATI) legislation, and strengthening the transparency and accountability of the Judiciary. In particular, World Bank engagement will focus on four areas: (i) strengthening the Council for Transparency's oversight role through facilitating access to peer knowledge and good practices from ATI oversight bodies of OECD countries; (ii) developing ICT platforms in order to respond to information requests at the municipal level; (iii) improving records management practices in the Chilean public administration; and (iv) strengthening the capacity of the Supreme Court, in particular its communications office, to design and implement a change management and communications program built on transparency and integrity.

1.3 Strengthening M&E systems

58. The current government has assigned MIDEPLAN greater responsibility in monitoring and evaluating public sector performance with the creation of a specialized Monitoring and Evaluation Unit. MIDEPLAN has initiated the work program by identifying program objectives, target population, functions, progress, and outcomes. Based on this information, a specific agenda for the Ministry will be developed that could also provide input to other central government units such as the Presidency or *Dirección de Presupuestos (DIPRES)*. The World Bank will provide advice, through a proposed fee-based-service (FBS) in this process and potentially support in the development of methodologies that would lead to making programs more efficient and responsive to the mandate of MIDEPLAN. Finally, the FBS intends to develop the scorecard for the programs as well as other evaluation methodologies that the Ministry would identify as needed.

1.4 Strengthening of the financial system and capital markets regulation

59. The current administration has set the deepening of the capital markets as a priority supported by a broad strategy articulated in the "Agenda Mercado de Capitales del Bicentenario", (Bicentennial Capital Markets Agenda, MKB) The World Bank will provide support to the authorities, initially, on advice in the areas of risk-based supervision in the insurance sector. In addition a Financial Sector Assessment Program (FSAP) will be delivered jointly with the International Monetary Fund (IMF) in FY11. The FSAP results and recommendations will identify potential areas of further cooperation.

60. Chile's strong and well-managed banks tend to compete for business among blue chip corporations and middle- upper-income retail clients. They have largely neglected the needs of small and medium enterprises. In order to address this gap, IFC will continue exploring partnerships with banks and non-banks to provide lines of credit for small companies or low-income groups. IFC may also provide innovative solutions for this market segment, such as short-term financing products to overcome working capital limitations.

1.5 Efficient use of resources in public services

61. The GOC aims to achieve greater efficiency in the provision of public services. The Government has requested the Bank to focus in the health sector in the initial phase of the CPS. Chile has reached almost universal coverage of prioritized health services and its health indicators are equal or superior to countries with similar or larger levels of health spending. The major health sector reforms during recent years focused on reducing barriers to access through the increase in the number of health problems protected under the guaranteed insurance benefit plan (in Spanish, *Acceso Universal con Garantías Explícitas, AUGE*, also called the *Regimen de Garantías Explícitas de Salud, RGES*), from an initial 14 health problems in 2005 to 56 for the period 2007 -2009. The goal was to reach 80 health problems guaranteed during 2010. Thus, the health sector is subject to new demands which are posing a challenge to the efficient use of resources in the provision of the multitude of services which are characteristic of this sector. The Bank, through the JSP, will assist the Government in analyzing the incentives structure in the Chilean Health System and evaluating whether policy objectives are adequately financed. Specifically, an assessment will be carried out of the management tools that are available for the purchasing of health services in the National Health Fund (*FONASA*) and the accompanying information systems that support the purchases made by this institution. Support to implement the required reforms may be provided through a new Technical Assistance Loan.

Result Area 2: Job Creation and Improving Equity

62. This result area would support the GOC's objective of reducing economic and social inequality in Chile through enabling the emergence of economic opportunities in high value added activities and promoting human capital development. To this end, the Bank would initially address the following requests from the Government through lending and studies: (i) improving quality, financing, and equitable access to tertiary education services; (ii) improving the social protection system for the poor; and (iii) increasing the access of rural population to markets for their products.

2.1 Improving Access and Quality Education

63. Chile has embarked on an ambitious path of reform of its education system at all levels. The Bank will support the efforts to implement the recent reforms to improve quality assurance and efficiency of education and promote the articulation from secondary to tertiary and onward to the economy. The proposed Technical Assistance Loan for strengthening the Social Sectors and Public Policies would finance implementation of the existing policies on education.

64. The GOC is placing greater emphasis in finding efficient and innovative ways to finance an equitable access to tertiary education. The Bank will support these efforts, through the JSP, by evaluating the State-Guaranteed Student Loan Program (*CAE, Crédito con Aval del Estado*), which has been operating since 2006. The *CAE* aims at increasing equity in enrollment, supporting qualified students from lower income brackets to increase their likelihood to access tertiary education. In addition, *CAE* aims at increasing quality of tertiary education services. The Budget Office (*DIPRES*) at the Ministry of Finance has requested Bank support in evaluating the program to formulate recommendations for its improvement going forward. The

Bank assistance will focus on evaluating the effects of the *CAE* program on improved tertiary education's coverage and equity and accessing its financial sustainability.

65. A new lending operation will further focus on increasing quality through further improvements to the accreditation system and through greater reliance on performance-based financing. The objective is that accreditation “reaches down” to influence teaching and learning practices in the classroom. The intended institutional changes would seek to empower institutions in defining its mission and goals to then be held accountable for reaching them, while encouraging diversity in institutional missions among institutions.

66. IFC pioneered investments in private education in Chile and has replicated this approach elsewhere in Latin America, particularly in Colombia and Brazil. IFC has detected continued demand for investments in Chilean institutions that focus on adult education and technical training. IFC's approach is either to provide direct financing to support these colleges' expansion projects; or to support student loan programs focused on low-income and middle class students by funding financial institutions or universities that offer these loans.

2.2 Improved Social Protection System for the Poor

67. Chile has undertaken a substantial reform in its social protection system through the *Chile Solidario* and the *Chile Crece Contigo (CCC)* programs, which targets delivery of basic social services to the poor. The Bank will continue supporting the effective implementation and monitoring of the results of these and other key social protection policies and programs, as well as the management of the system as a whole. This support will be provided through the recently approved additional financing for the Social Protection Technical Assistance Project, and the new Technical Assistance Loan. Areas for support include: the development, including pilot evaluation, of the new minimum income program proposal (*ingreso ético familiar*); the transformation of *MIDEPLAN* into a Social Development Ministry; capacity-building for municipalities to support the strengthening of their management in areas related to the social protection system and an assessment of this activity plus other technical assistance being provided by *MIDEPLAN* to local governments; follow-up of the results of the changes being introduced to the psychosocial support provided by the Puente program to families (group sessions and differentiated strategy based on family characteristics; continued support and assessment of the results of the implementation of the local employment service for *Chile Solidario* participants and the new programs for the elderly, homeless, and families with incarcerated members; evaluation of the implementation of *CCC* and its integrated intervention strategy. One of the interventions within *CCC* is expanding childcare facilities (meeting age-appropriate standards) so as to guarantee these services for any mother who is either studying or working. Initial results show that this intervention is having a positive impact on providing poor women access to the labor market. In a related initiative, the World Bank is collaborating with the Government on an impact evaluation of the parental education intervention within *CCC*, for which access to additional grant financing has been secured.

2.3 Increased Access of Rural Population to Public Services and Markets

68. The Government of Chile remains committed to the expansion of infrastructure services to rural areas to address poverty and income inequality. The previous Government of Chile sought the Bank as a source of strategic advice in designing new approaches to rural infrastructure and territorial development. The Bank responded with the Infrastructure for Territorial Development Project that is working on the effective and productive use of sustainable infrastructure services by poor rural communities in selected territories and in strengthening the capacity of participating agencies to implement territorially-based, demand-responsive and multi-sectoral approach to rural infrastructure. Among the 31 territorial development framework plans (PMDT) that have been prepared under the PIRDT, 10 of these plans include indigenous communities as beneficiaries. The infrastructure services include water supply, sanitation, roads, ICT and electricity. Based on the positive results thus far, discussions between the authorities and the Bank are underway on a possible follow-up operation in this area.

Result Area 3: Promoting Sustainable Investments

69. The CPS would support the GOC's objective of facilitating investments in the productive sectors and improving regulations in the use of natural resources, particularly water. The Bank will continue or initiate activities, in response to requests for support in: (i) improving the design of the regulatory framework and of the overall investment planning system in the infrastructure and productive sectors to identify the most productive projects, (ii) financing private sector investments, and (iii) developing recommendations on options for regulating the sustainable use of natural resources, with a particular focus on water, which is becoming a major limiting factor to productivity in various sectors.

3.1 Strengthening Regulations and Further Development of Productive Infrastructure

70. Chile has in place one of the most advanced systems for concessions to build and manage infrastructure (encompassing roads ports, railroads, bridges, tunnels, reservoirs), but the regulatory framework needs to be revised in order to provide incentives for further investments. At the regional level, the Bank will continue to assist the GOC in putting in place a sustainable and integrated approach to the planning of infrastructure, establishing service standards as well as model contracts and procedures that promote competition and assign risks appropriately, developing integrated project management processes, developing a regulatory framework that increases consumer confidence in service provision, and the legal and organizational separation of the areas of planning, contracting, execution and regulation in infrastructure provision. At the urban level, the Bank will continue and initiate activities related to the development and implementation of transport modeling tools, and identifying new urban transport financing mechanisms involving the private sector.

71. In response to the country's exposure to extreme natural events, the GOC is developing an agenda to strengthen disaster risk management institutions. The Bank has secured a grant to support the government in the development of a remote damage assessment system which would assist government agencies in responding fast to a natural disaster.

72. While the agro-food industry has evolved substantially during the last decades, private sector investment in research and development has been very limited. The Bank is currently supporting the Ministry of Agriculture, through a FBS, in developing an implementation framework for the 2030 Rural Chile strategy in the Agro-food and Forestry sectors, as well as in the context of core principles, which will be valuable during the design and implementation of the institutional, operational, instruments and governance changes needed in order to increase private sector participation in research and development in this area.

3.2 Support to Private Sector Investments

73. IFC will remain closely engaged in Chile's renewable energy sector, but will take a more selective approach to investing. Increasingly, the Corporation expects to focus on run-of-the-river hydro units that minimize impacts on surrounding communities and the environment; in developing innovative financing structures for energy projects; supporting energy efficiency projects either directly with major clients or by partnering with financial institutions to channel financing to smaller companies; and developing and expanding new energy sources such as solar and geothermal sources by drawing on its experience elsewhere in the LAC region and globally.

74. IFC will continue to seek investment opportunities in Chile, particularly in companies that operate in advanced fields or are developing innovative business models. IFC has developed new short-term facilities designed to meet the needs of often undercapitalized small and mid-market firms, by improving their cash flows and by introducing them to more sophisticated financial products. In addition, the Corporation plans on supporting cross-border investments by Chilean companies in neighboring countries or in other developing countries, by helping address the difficulties many companies face in sourcing risk-mitigation products and in raising local financing.

3.3 Sustainable use of Natural Resources

75. The Bank would assist the GOC in addressing the challenges in water resources management. As the demand for water increases from various sources, the government foresees a review of its institutions for water allocation and water markets. Discussions are underway for the Bank to help revisit the national water resources policy and strategy and develop options for new approaches based on basin management to effectively address the multipurpose uses of water.

76. In addition, the Bank will continue providing assistance in support of GOC's efforts in ensuring sustainable growth. Through grant financing mechanisms the Bank will support the GOC in the following activities: (i) an IDF grant that will contribute to the Ministry of Mining's efforts to strengthen the dialogue between the private sector and the indigenous communities in order to promote sustainable mining investments; (ii) provision of technical assistance to develop Chile's Readiness Preparation Proposal under the Forest Carbon Partnership Facility (FCPF); (iii) a GEF grant for the development of a national incentive program for mainstreaming sustainable land management planning and practices; and, (iv) two Emission Reduction Purchase

Agreements linked to afforestation and reforestation of degraded land and to a hydropower project.

D. Implementing the Country Partnership Strategy

77. This CPS spans a six year period, with a possible extension, subject to a stable country environment and the continued membership of Chile as a client country. The significant continuity both in the structure and areas of engagement of the Bank in Chile throughout the years justify the longer time-span. As mentioned before, the engagement would be mainly through the JSP, with the GOC initially funding two thirds and the Bank one third of the activities. Bank financing is justified due to the important learning by staff and the potential spillovers into other client countries that work in Chile is likely to continue to yield. The JSP will be negotiated on a yearly basis, with the possibility of additional studies being agreed to mid-way through the year. The Bank expects to continue to fund approximately US\$400,000 per fiscal year, with the Government contributing initially up to US\$ 800,000 in order to ensure that the demand for studies are fully met. Fee-Based-Services would be used for additional studies that the GOC requests outside of the JSP framework, for shorter term GOC priorities which may not have as high spillover effects. In terms of lending, an indicative envelope of US\$600 million for the six year period would be expected, with a current proposed pipeline of US\$200 million approximately for fiscal years 2012-2013. Three loans have been identified in areas in which the Government deems the Bank can add value through medium term involvement in design and implementation of key programs.

78. The CPS program is flexible in order to enable the Bank's response to a sophisticated client that demands just-in-time assistance, mostly in knowledge intensive areas. Thus, the results framework includes Bank activities which are mainly studies (under the FY10 Joint Studies Programs and Fee-Based-Services), in addition to six ongoing projects and three proposed technical assistance operations. Indicators are relatively low-level, under the three results areas, and reflect measurable deliverables. The results framework will be used as a monitoring tool and will be updated on a yearly basis, based on a joint program review with the GOC. In addition, a Progress Report will be prepared and submitted mid-way through this CPS period.

79. In order to ensure adequate quality and compliance with Bank policies, studies to be carried out under the JSP or under FBS schemes will have an internal review system. The internal review will include the same cycle as Analytic and Advisory Activities (AAAs), i.e. approval of Terms of Reference (TOR), Quality Enhancement Review (QER), and Decision meetings, including peer reviews, prior to final submission to the client.

80. Investment lending will continue on a limited basis and upon demand by the Government. In general, no major changes are expected in terms of implementation processes, given the satisfactory performance of the portfolio during the previous CPS. Overall, Chile scores high on public financial management, which is supported by strong adherence to clear set of rules, dedicated and qualified staff and strong management, which ensures not only compliance with rules and procedures, but also accountability. Therefore, the Bank will continue to rely on country systems for budget preparation and execution, as well as accounting through

SIGFE and external audit through the Supreme Audit Institution (*Contraloría General de la República*). Additionally, the Bank expects to continue using Bank and IDB financial reports directly issued from *SIGFE*. In the area of procurement, the Bank-financed projects progressively rely on the parts of the system (see para 47). The Bank will continue to work with counterparts to help strengthen the national procurement processes.

81. Finally, the Bank will continue supporting knowledge sharing activities between client governments and Chile. While Chile is not formally part of the South-South Knowledge Exchange Platform, several experiences have proven useful for other Bank clients. For example, Chile's world class experts in partial credit risk guarantees have helped to design Bank lending operations in two IDA countries in LAC – Nicaragua and Haiti. The Bank has facilitated numerous study tours and knowledge exchanges under the previous CPS in areas such as results-based budgeting, social protection and tertiary education reform. The Bank team expects to continue facilitating this knowledge exchange during this CPS period.

IV. MANAGING RISKS

82. Given the strong economic and institutional framework in Chile, risks are low to moderate for the implementation of the proposed CPS. Foreseen potential risks are due mainly to financial and natural causes. The following sections discuss each of the main risks including the risk to the Bank Group.

A. Country Risks

83. The political and social contexts in Chile are very stable, as evidenced by the smooth governmental transition, and the successful social programs implemented in the country. Still, there are some risks of political and social upheaval due to continued levels of inequality observed in Chile and the discontent of the small but significant indigenous population in the country. These risks could increase if the country's energy program, focusing on water and aeolic energy, does not consider the needs and demands from indigenous and environmental groups. President Piñera, in his statement to Parliament (May, 2010), included a plan to address these challenges.

84. The 2010 fiscal pressures due to the February earthquake may continue during 2011.¹² However, the government is not expected to have problems in closing fiscal gaps as savings in sovereign wealth funds accumulated during the copper price boom remain substantial and there is room for additional issues of public debt in both local and international markets. The authorities' goal to return to structural fiscal balance by 2014 will be challenging, implying significant expenditure restraint over a number of years.

85. Chile is prone to natural disasters, particularly earthquakes and tsunamis, as it is located in a highly seismic area. Floods and extreme temperature exposure are also common threats, though often less damaging. The experience from the February 2010 earthquake shows

¹² The authorities estimated that the public share of the reconstruction cost would be in the order of US\$8.4 billion (4percent of GDP) over 2010-2013.

that the country can emerge from these shocks relatively well thanks to strong institutions and financial resources. Furthermore, the recent experience has left a number of lessons on the logistics of rapid response that are being currently being incorporated in the Government's contingency strategy to respond fast to the needs of affected and vulnerable populations.

B. External shocks

86. While financial market turbulences in September 2008 were felt across all emerging market economies, Chile's economy proved more resilient than others. This greater resilience is linked to Chile's solid macroeconomic policies and a solid financial system.

87. Chile will continue to be vulnerable to external shocks as it is heavily dependent on copper exports and oil imports. Commodity exports are currently approximately 65 percent of the share of total merchandise exports. The national agenda to increase competitiveness and promote increased productivity and diversification addresses this risk.

C. Risk to the World Bank Group

88. The delivery of a flexible, focused and timely support to a MIC country such as Chile is a challenge to the Bank. In order to meet demands, the Bank's technical expertise and advisory services will have to continue to be cutting-edge, and responsive to the fast changing needs of a sophisticated client.

**Annex 1: Chile Country Partnership Strategy FY11-FY16
Results Framework: Ongoing and Confirmed Program**

GOVERNMENT'S STRATEGIC PILLAR: ACHIEVING GREATER COMPETITIVENESS RESULT AREA I – PUBLIC SECTOR MODERNIZATION		
Institutional Outcomes in the Government's Action Plan that the CPS will support	Milestones and Outputs of the CPS program	Instruments and Partners
<ul style="list-style-type: none"> ➤ Improving performance and public financial management 	<ul style="list-style-type: none"> ❖ Inform policy debate on a new model of performance management incentives, including an assessment of management tools to improve institutional performance accountability mechanisms to align incentives to staff at all levels. ❖ Upgraded Financial Administration System (<i>SIGFE</i>) used by most (90 percent) of the Central Government Entities (CGE) that currently use <i>SIGFE</i>. ❖ Financial and public expenditures information from CGE updated online and consolidated in <i>SIGFE</i> on a timely manner. ❖ Aggregated municipal financial and public expenditures information available at the central level within 30 days. ❖ Financial and expenditure information of 100 municipalities available through the system. ❖ Inform policy debate on proposals to improve management and accountability mechanisms in education and health sectors. ❖ Strengthen the design and implementation of health, education, and social protection policies and programs. 	<p>Assessment of the Performance Management Incentives (JSP, FY11) <i>DIPRES</i></p> <p>Public Expenditure Management II (SIL, FY08-FY13) <i>DIPRES – SIGFE</i></p> <p>Chile's Decentralization Agenda (JSP, FY11) <i>SUBDERE</i></p> <p>Social Sector and Public Policies (TAL, FY12-FY15) <i>DIPRES</i></p>
<ul style="list-style-type: none"> ➤ Increasing transparency 	<ul style="list-style-type: none"> ❖ Implementation of the Access to Information legislation. ❖ Strengthened oversight role of the Council for Transparency. ❖ Improved record management practices in the public administration. ❖ Strengthened capacity of the Supreme Court to design and implement a change management and communications program built on transparency and integrity. 	<p>Strengthening Chile's Council for Transparency (IDF, FY10-FY13) <i>Council of Transparency</i></p> <p>Strengthening the Transparency and Accountability of the Judiciary (IDF, FY11-FY14) - <i>Supreme Court</i></p>
<ul style="list-style-type: none"> ➤ Strengthening monitoring and evaluation systems 	<ul style="list-style-type: none"> ❖ Design of scorecard methodology and pilot test of scorecard methodology for selected social programs. ❖ Methodologies for evaluation of social programs developed. 	<p>Strengthening of the Monitoring and Evaluation System for Social Programs (FBS, FY11) - <i>MIDEPLAN</i></p>
<ul style="list-style-type: none"> ➤ Strengthening financial system and capital markets regulation 	<ul style="list-style-type: none"> ❖ Assessment of the draft bill to enhance the regulatory framework and supervision of the insurance sector. ❖ Inform policy debate on legislative reform to advance effective risk based supervision in the insurance sector in Chile. ❖ Assessment of the financial sector and regulatory development since 2004. ❖ Inform policy discussions on pension funds incentive structure, SME financing, and bank and insurance regulation and supervision. ❖ Potential hybrid financing and innovative financial instruments by IFC. 	<p>Insurance Sector Review (JSP, FY11) <i>Ministry of Finance</i></p> <p>FSAP (joint assessment with IMF, FY11) <i>Ministry of Finance & Central Bank</i></p> <p>Potential IFC financing support</p>
<ul style="list-style-type: none"> ➤ Boosting the efficiency of resources in the public sector 	<ul style="list-style-type: none"> ❖ Inform policy debate on individual and institutional incentives scheme in the provision of health services and review of procurement management and information systems in the health sector. 	<p>Improvement in the Health Sector Financing (JSP, FY11) <i>DIPRES - Ministry of Health</i></p>

**GOVERNMENT'S STRATEGIC PILLAR: IMPROVING JOB CREATION AND JOB QUALITY
RESULT AREA II – JOB CREATION AND IMPROVING EQUITY**

Institutional Outcomes in the Government's Action Plan that the CPS will support	Milestones and Outputs of the CPS program	Instruments and Partners
<ul style="list-style-type: none"> ➤ Improving quality, financing, and equitable access to tertiary education services 	<ul style="list-style-type: none"> ❖ Extension of Performance Contracts to all subcategories of tertiary education institutions (both public and private universities, professional institutes, and centers for technical education). ❖ Increased accountability for quality through broadening of performance-based funding model linked to targeted indicators. ❖ Enhanced equity and improved access through more options for students from low-income backgrounds and through improved remediation of skills in tertiary education. ❖ Impact assessment of the state-guaranteed student loan program on improved tertiary education's coverage and equity. ❖ Inform policy debate on the future public financial obligation and potential cost-effectiveness of the intervention, and provide recommendations for improvements going forward. 	<p>Tertiary Education Financing for Results Project (APL 2nd phase, FY12 – FY16) <i>MECESUP</i></p> <p>Potential IFC financing support to tertiary education institutions</p> <p>State-Guaranteed Student Loan Program (CAE) (JSP, FY11) <i>Ministry of Finance</i></p> <p>Potential IFC financing support to student loan programs for low-income population</p>
<ul style="list-style-type: none"> ❖ Improving the social protection system for the poor 	<ul style="list-style-type: none"> ❖ Implementation of the new minimum income proposal (<i>Ingreso Etico Familiar</i>). ❖ Improved targeting system for social programs and enhanced monitoring and evaluation capacities at <i>MIDEPLAN</i>. ❖ Assessment of <i>Chile Solidario</i> and <i>Chile Crece Contigo</i> programs' results. ❖ Strengthen the design and implementation of social protection policies and programs. 	<p>Social Protection (TAL additional Financing, FY11 – FY12) <i>MIDEPLAN</i></p> <p>Social Sector and Public Policies (TAL, FY12-FY15) <i>DIPRES</i></p>
<ul style="list-style-type: none"> ❖ Increasing the access of rural population to basic public services and markets 	<ul style="list-style-type: none"> ❖ Increase the effective and productive use of sustainable infrastructure services by poor rural communities as evidence in: <ul style="list-style-type: none"> ✓ Rural infrastructure projects approved through the new integrated economic evaluation of <i>MIDEPLAN</i> ✓ Increased use of transportation services along rehabilitated road infrastructure in the area of influence of the Bank financed project ✓ Increased use of electricity and sustained access and effective use of water and sanitation services for economic activities in the area of influence of the Bank financed project ✓ Economic activities promoted through the use of the financed infrastructure and pre-investment for productive activities. 	<p>Infrastructure for Territorial Development (SIL, FY05-FY12) <i>SUBDERE</i></p>

**GOVERNMENT'S STRATEGIC PILLAR: PROMOTING INVESTMENT
RESULT AREA III – PROMOTING SUSTAINABLE INVESTMENT**

Institutional Outcomes in the Government's Action Plan that the CPS will support	Milestones and Outputs of the CPS program	Instruments and Partners
<ul style="list-style-type: none"> ➤ Strengthening regulations and further development of productive infrastructure 	<ul style="list-style-type: none"> ❖ Increased share of projects administered with an integrated project management approach. ❖ Enhanced competition in bidding processes for concession contracts. ❖ Inform policy decisions on the best strategy for sustainable and integrated approach to infrastructure planning. ❖ Improvement measures for the public transport system for Metropolitan Santiago implemented. ❖ Information on payment obligation to public transport operators available in real time. ❖ Assessment of a model city (Talca) for the reconstruction of urban transport systems of other cities in the area hit by the earthquake. ❖ Inform policy debate on recommendations on public transport service organization, transport infrastructure, technological solutions, and management of transport operations in Talca. ❖ Inform policy debate on feasible options of financial instruments for the Chilean urban transport projects. ❖ Improve regulatory and institutional framework for concessions. ❖ Strengthen public investment planning to facilitate foreign trade. ❖ Improve foreign trade logistics and competitiveness. ❖ Remote damage assessment contributes to the Government's reconstruction plan for the areas affected by the earthquake and tsunami of February 27th, 2010. ❖ Assessment of long-term challenges and responses of the agri-food and forestry innovation sub-systems (AFFIS). ❖ Inform policy debate on building a vision for Chile's rural, agri-food and forestry sectors towards 2030. 	<p>Ministry of Public Works Institutional Strengthening (TAL, FY08-FY14) <i>Ministry of Public Works</i> Santiago Urban Transport (TAL, FY06-FY12) - <i>Transantiago</i> Urban Transport System redesign for a model city in Chile (SFLAC, FY11-FY12) <i>Ministry of Transport</i> Financial Instruments to Finance Urban Transport Projects (FBS, FY11) <i>Ministry of Planning</i> Infrastructure (Investment Operation, FY12-FY16) - <i>Ministry of Public Works</i> Remote Sensing Damage Assessment (SFLAC, FY10-FY11) <i>Ministry of National Assets</i> Review of challenges and response of the agri-food and forestry innovation systems (FBS, FY10-11) <i>Ministry of Agriculture – Foundation for Agriculture Innovation (FIA)</i></p>
<ul style="list-style-type: none"> ➤ Support to private sector investment 	<ul style="list-style-type: none"> ❖ Increased innovative renewable energy investment and energy efficiency projects. ❖ Support to Chilean companies, particularly those operating in advanced fields or developing innovative business models. 	<p>Potential IFC financing support</p>
<ul style="list-style-type: none"> ➤ Sustainable use of natural resources 	<ul style="list-style-type: none"> ❖ Analytical review of property rights administration and water market structure. ❖ Impact assessment of economic incentives and subsidies on water resources sustainability. ❖ Inform policy debate on best strategy to address short-term and medium-term challenges on water resources management. ❖ Strengthened dialogue mechanisms between the private sector and the indigenous communities on sustainable mining investment. ❖ Strengthened capacity of the Ministry of Mining's staff on managing consultations. ❖ Technical assistance to develop Chile's Readiness Preparation Proposal (R-PP), including preparing the national REDD strategy. ❖ Development of a national incentive program for mainstreaming sustainable land management planning and practices in order to combat land degradation, conserve biodiversity of global importance and protect vital carbon assets. ❖ Purchase of carbon emission reductions linked to renewable energy-based electricity production and afforestation and reforestation of degraded land. 	<p>Water Resources Assessment (JSP, FY11) <i>Ministry of Public Works</i> Institutional Strengthening of Mining Sector for Indigenous Peoples Inclusion (IDF, FY10-FY13) - <i>Ministry of Mining</i> Chile FCPF Readiness Preparation Grant (FCPF, FY10-FY12) - <i>Ministry of Agriculture</i> Sustainable Land Management (GEF, FY11-FY18) - <i>Ministry of Agriculture</i> Quillico Hydroelectric Project (PCF, FY11-FY13) - <i>COLBÚN, S.A.</i> Chile Securitization and Carbon Sinks Project (BioCarbon Fund, FY11-FY13) - <i>Fundación Chile</i></p>

Annex 2: CHILE CPS COMPLETION REPORT

1. This Country Partnership Strategy Completion Report (CPSCR) provides an evaluation of Bank Group assistance to Chile for FY07-FY10. The Joint IBRD and IFC Country Partnership Strategy (CPS) for Chile (Report No. 38691-CL) was presented to the Board on June 14, 2007. A Joint IBRD and IFC CPS Progress Report was submitted to the Board in September 2009 (Report No. 50878-CL).

2. This CPSCR was prepared using as background information the CPS, the CPS Progress Report, the latest Implementation Status Reports (ISR) for ongoing projects in the Bank's Chile portfolio, Implementation Completion and Results Reports (ICR) for loans that closed during the CPS period, Aide-Memoires of annual meetings with the Government to evaluate and prioritize assistance under the Joint Studies Program (JSP), and selected studies carried out during the CPS period. Since the CPS Progress Report was prepared about one year prior to this completion report, this CPSCR draws heavily on the information in the Progress Report.

I. Background

Overview

3. The FY07-FY10 CPS was developed to meet the changing needs of a highly successful, globally integrated MIC committed to both growth and social equity, and to help the country realize its goal of convergence with OECD income levels and living standards through faster growth and greater equality of opportunities. As such, it presented the Bank Group with a complex set of challenges that confront, and will continue to confront, many of its MIC clients.

4. **Economic.** Chile consolidated a stable and successful economy since the late 1980's. Following an economic slowdown in response to the economic and financial crises of the late 1990s, Chile's growth accelerated to around 6 percent in each of 2004 and 2005, and then fell back to 4 percent in 2006, attributable in part to higher oil prices, one-off shock in the copper mining sector and the effects of an appreciating *peso*. By the time the CPS was prepared, Chile was the fastest growing economy in the LAC region, with an annual per capita growth rate of 4.1 percent over the fifteen years following the return of democracy. At the time of the CPS, external financing conditions were highly advantageous for emerging markets in general and Chile in particular, as reflected in its investment grade bond rating.

5. **Social.** Since 1990, poverty in Chile had been cut by more than half, from 40 percent to an estimated 15-18 percent in 2006. Thanks to the Government's social expenditures, which were designed to tackle inequality, the ratio of total income of the richest 20 percent to the poorest 20 percent fell from 14 to 7.6. Still, about 2.5 million Chileans remained poor and the country continued to struggle with high inequality.

6. **Political.** In March 1990, following 17 years of military rule, Chile reestablished democratic governance with the inauguration of President Patricio Aylwin, the first of four successive presidents of the center-left coalition of parties known as *Concertación*, that included President Michelle Bachelet who was inaugurated as Chile's first woman president in March

2006. The *Concertación* played a crucial role in Chile's transition to democracy through its effective handling of sensitive political and human rights issues and its highly consensual approach to economic management. In early 2005, a constitutional reform was approved, shortening the presidential term from six years to four, and prohibiting the immediate re-election of a president. As a result, President Bachelet came to office with a smaller window of opportunity than her predecessors. During her first year in office, the Government had launched several Presidential and other high-level commissions on a range of issues, including pension reform, innovation, childhood development and education (and had asked the Bank to contribute to a number of these).

7. **Governance.** Chile's strong macroeconomic fundamentals and outward looking trade policies had been accompanied by reforms in governance that have progressively increased efficiency and transparency, and given Chile a well-deserved reputation for "clean" and effective government.

8. **Outlook/Challenges.** At the time the CPS was prepared, Chile's macroeconomic prospects were considered strong, with the Government projecting that real GDP growth would stabilize at about 5.3 percent per annum. Public savings had grown to a point where Chile was a net creditor, and the Government's credibility as a debt issuer in international markets was high. The Government's track record with pursuing counter-cyclical fiscal policies allowed it to counterbalance adverse shocks, and thereby reduce macroeconomic instability and ensure the sustainability of social expenditures. Chile's growth was seen as having the potential to be higher than projected if the Government were to continue fostering policies that encouraged innovation, enhancing educational quality and attainment for all Chileans, and providing adequate physical infrastructure for growth and improved competitiveness. Additional steps to improve the functioning of labor and capital markets, and strengthen the competition framework, areas in which the Bank had been working with the Government, would support investments in knowledge, human capital and infrastructure.

9. In its first year in office, President Bachelet's administration had faced several domestic challenges. These included calls for greater investment of the copper windfall in social services, protests by secondary school students demanding better education, demands for wage increases by miners, threats of strikes by teachers and health workers demanding pay hikes, and protests and threats of a strike by transit workers upon the roll-out of the *Transantiago* urban transport system.

The Government's Longer Term Strategic Goals

10. President Bachelet's *Programa de Gobierno* defining theme was that of making Chile more competitive and equitable by reducing barriers to opportunity—the goal of Growth with Equality of Opportunity. The Program aimed to accelerate growth, expand global commercial linkages, improve education, safeguard natural resources, and strengthen competitiveness while addressing acute and longstanding social problems.

11. The Program's five core themes relating to growth and equality of opportunity included: (i) **Social Policy**, including issues of equity of access to education and education quality, health

coverage to strengthen social protection, and reform of social security to broaden coverage and provide a minimum pension to all; (ii) **A Development Leap: Promoting Innovation**, including innovation to enhance productivity and environment and environmental management for sustainable growth and health concerns; (iii) **Quality of Life: Infrastructure**, including increasing access to public services especially housing, providing safe, efficient and clean transport and boosting competitiveness and job creation; (iv) **New Citizen Compact**, including transparency and modernization of government within the context of regional development; and (v) **Ending Discrimination**, not only for ethical reasons, but for the economic and social development of the country.

Strategic Objective of the CPS, FY2007-2010

12. The strategic objective of the CPS was to support Chile's efforts to converge with OECD income levels and living standards by: (i) accelerating sustainable growth, and (ii) increasing equality of opportunity. The CPS program focused on core areas of the Government agenda and where the World Bank Group was well positioned to assist innovation, infrastructure and public services, public sector management, sustainable development and the environment, improving education, and social protection.

13. The IFC program supported the Government's development vision and complemented the Bank's interventions by filling the gaps in access to long-term financing by SMEs and micro-enterprises and for low-income housing and education and infrastructure. The IFC was particularly interested in addressing high impact areas by leveraging its structured finance products, providing technical assistance and advisory services, and through its traditional product lines, both with direct investments and through wholesaling. The IFC identified infrastructure, and more specifically, energy as the main area of increased Bank Group coordination.

14. The CPS described the rationale for continued World Bank support to the country. First, addressing poverty and inequality, which remained acute, was critical for Chile to join the ranks of OECD countries. Second, the Government continued to value World Bank engagement through a flexible mix of financial and advisory services. Third, responding to the Government's request for continued engagement would test the Bank's ability to deliver just-in-time knowledge services and facilitate global experience and know-how within the framework of a project or through non-lending services. Finally, Chile's record of economic reform provided valuable lessons to share with other Bank member countries.

15. The proposed program included a mix of lending and technical assistance. An indicative lending program of up to US\$250 million consisted of investment and development policy loans. Technical assistance was to be delivered mainly through a fee-for-service joint studies framework arrangement that would move beyond the case-by-case, ad-hoc approach toward an arrangement that would allow greater certainty in planning and financing, be cost effective to the client, and administratively flexible. The studies program would be agreed upon annually, including the products and services to be provided, and a time-line for their delivery.

16. The CPS built on intensive consultations that took place through Policy Notes, a Development Policy Review and discussions in preparation for the CPS. In many cases, the

Bank's dialogue was developed as part of its participation in high-level Presidential Commissions that involved substantial citizen involvement. The Bank also carried out a Client Survey, and planned to follow up on its findings in order to strengthen its interventions in Chile.

Identified Risks

17. The CPS pointed out that Chile's objective of converging to OECD income levels was ambitious and subject to risks that included domestic, external and implementation. Three **domestic risks** were considered. First, political tensions, including the weakening of the cohesion within the *Concertación* could lead to a slowing of the reform process and reduce trend growth. Second, there were high expectations that the Government would use part of the copper windfall to fund new social programs, possibly threatening the fiscal sustainability of the reform process. Finally, the CPS considered that Chile's growth prospects could be held back by relatively slow productivity growth since it lagged substantially behind OECD economies with respect to innovation capacity, human capital and labor force participation, and the challenges its geography presented for infrastructure development.

18. The main risk factors for the economy were seen as being **external**, including a possible slowdown in global markets combined with weak copper prices, increased global risk aversion and/or an escalation of regional instability, and possible disruptions in the energy supply and high oil prices. As a small open economy, Chile was seen as sensitive to regional and global developments and shifts in demand from its major trading partners. While Chile had been successful in reducing exposure to financial contagion and diversifying its export base, its economy remained vulnerable to commodity price shocks and in particular to copper prices. The country's strong record of performance and coherent development strategy were seen as mitigating factors. Successive governments had implemented policies to strengthen social cohesion, reduce Chile's macroeconomic vulnerability and improve the policy instruments available to respond to shocks. As a result, most of the risks were evaluated to be low or moderate.

19. The CPS identified two **risks to the World Bank Group**. First, delivering on a strategy of flexible, focused and fast support to a sophisticated MIC like Chile would put the Bank's MIC strategy to the test. The Bank would need to provide cutting-edge technical expertise and advisory services, establish new financing arrangements that would facilitate timely negotiations and rapid response, and manage the complex incentives emanating from the twin objectives of maintaining client demand for its knowledge services while ensuring the highest standards in its analytical work with respect to quality standards and objectivity. A challenge to the IFC's ability to deliver on strategic focus areas was identified as the high levels of liquidity, at times generating mispricing of risks and preventing the materialization of innovative structures, especially in structured finance.

Lessons

20. Lessons from the Country Assistance Strategy (CAS) Completion Report for the FY02-FY06 CAS were considered in formulating the Bank Group's FY07-FY10 CPS. These included: (i) a flexible CPS is an appropriate way to structure the Bank's program in Chile; (ii) the Bank

should acknowledge that country strategy outcomes primarily reflect the efforts of the Government and the country given the difficulty of identifying with specificity the contribution of Bank interventions to overall country outcomes; (iii) the high value of the Bank's analytical engagement, illustrated by the extent of the Government's demand that resulted in a program of AAA that exceeded by far original plans; (iv) the Bank should focus on streamlining its contracting and procurement requirements and should incorporate country systems to the extent possible; and (v) the Bank should continue to work closely with other international agencies in its program of assistance to Chile.

Results Framework Proposed in CPS

21. The CPS acknowledged the expected difficulty of developing a results framework that specified expected linkages between the Bank's interventions and Chile's long-term development goals, especially in view of the flexible program of support that was being proposed, the relatively small scale of the Bank's financial support, and the nature of the Bank's evolving role as a knowledge partner. The "real-time" basis of the support the Government was requesting, often as direct input to its policy process, was seen as making ex-ante identification of inputs and results difficult.

22. As a result, the CPS sought to meet the core objective of a results-based CPS by presenting a results framework that would evaluate progress according to three distinct dimensions. First, since the CPS was driven by the Government's Program, its evaluation would be based on how effective the Government was in achieving its development vision, as determined by a select set of country development goals. These development goals were specified as: (i) accelerating convergence with OECD income levels; (ii) improving quality of education; (iii) providing effective protection against poverty; and (iv) transforming Chile into a knowledge economy. Second, the knowledge products—the core of the CPS that were expected to contribute to the policy process—would not be linked to country outcomes, but rather be judged on criteria of their quality, relevance and sustainability. Finally, the results framework would evaluate the CPS' limited investment projects supported by the Bank by their specific project indicators and the overall portfolio performance.

23. The program was relevant to the challenges of the country. The selective approach towards supporting the country's development strategy, concentrating in those areas in which the Government sought external knowledge and experience, and in which the Bank Group was positioned to provide assistance, responded to the Government's request for flexibility in approach. Similarly, the CPS' strong focus on the provision of client-prioritized knowledge services, a limited program of financial assistance through new lending in selected areas, coupled with an expansion of IFC's investment activity in targeted areas was tailored to the Government's needs for Bank assistance, that place strong emphasis on knowledge. The risks that eventually materialized during the CPS implementation period were mostly identified in advance, i.e., the risk of an economic slowdown and a possible political risk. Chile also suffered an additional risk that had not been identified in the CPS, the risk of a natural disaster in the form of a massive earthquake that struck the country on February 28, 2010.

24. On the other hand, the results framework was inadequate as country indicators were quite broad and the Bank program itself was not accompanied by output/outcome indicators that would allow for an objective evaluation of the CPS contribution. Furthermore, the fact that the Bank program was very small, precluded the team of any possible attribution with respect to country achievements.

II. Achievement of Country Development Goals

25. This section describes efforts by the Government to achieve each of the Country Development Goals. Chile made solid, sustained progress towards its Country Development Goals as described in the CPS. However, it is difficult to evaluate and appreciate the extent of the country's performance towards achieving these goals on the basis of the specific Government targets selected in the CPS to measure progress, either because of the manner in which they were formulated, the periodicity of the data collection, or lack of specificity in the indicators to be used.

Country Development Goal 1: Accelerate Convergence with OECD Income Levels

Government target: GDP growth above 5 percent

26. Chile made progress towards accelerating convergence with OECD income levels, but did not meet the 5 percent growth target. Chile's real GDP increased 4.6 percent p.a. in 2006 and in 2007. In the second half of 2008, growth started to deteriorate as the global financial crisis deepened and copper prices declined. Despite a substantial stimulus program that included monetary easing, increased public spending, targeted labor and social policies, temporary tax rebates and administrative measures aimed at boosting credit and competition in the financial system, among other measures, real GDP growth slowed to 3.7 percent in 2008 and economic activity contracted by 1.5 percent in 2009. Economic recovery was further disrupted, but not derailed, by a massive earthquake in February 2010. Growth declined by 1.5 percent in the first quarter of 2010, but economic recovery resumed forcefully in the second quarter of 2010, when GDP registered a 6.5 percent quarterly expansion. Driven by reconstruction and investment, Chile's economy is expected to grow by about 5 percent in 2010 and to recover further in 2011.

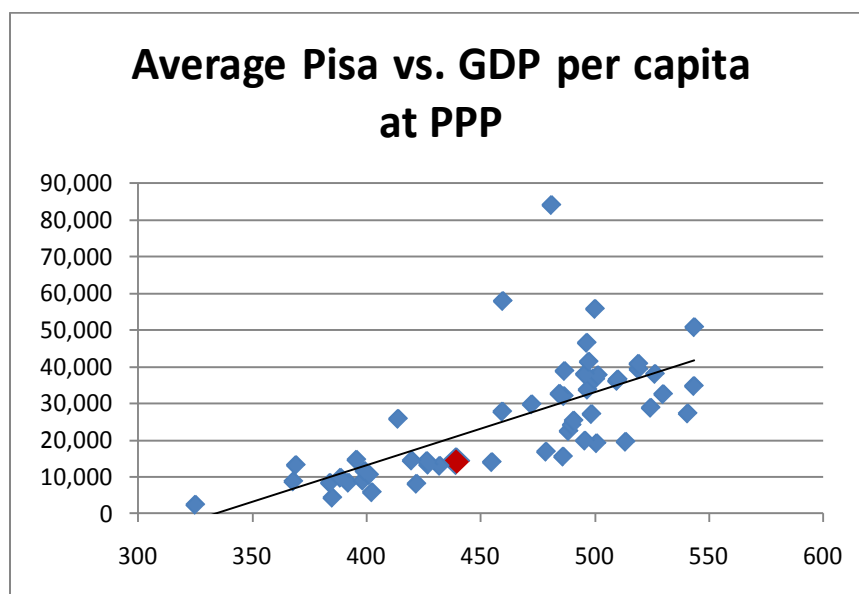
27. While Chile did not meet the stated goal of 5 percent growth, the average growth attained (approximately 3.3 percent) is a good result considering the two significant external factors that hit the country, that is, the financial crisis and the earthquake. The earthquake led to a substantial demand of fiscal funds (the estimated cost being approximate US\$29.7 billion), which thanks to strong institutions and fiscal capacity, the country was able to meet. Also, achieving the 5 percent goal would have involved significant growth in total factor productivity, including substantial interventions in innovation. As discussed in Section I, the Government was not able to fully implement an innovation system that would allow for the economy to converge with OECD income levels.

Country Development Goal 2: Improve Quality of Education

Government Target: Align international test scores (PISA) with Chile's per capita GDP

Government Progress towards Country Development Goal 2

28. The CPS established a target to measure Chile's progress toward education outcomes in terms of aligning test scores (PISA) with Chile's per capita GDP. The latest 2009 results presented in the graphs below reflect substantial progress. Chile's mean PISA performance in 2009 is slightly below what would be predicted based on its GDP per capita (PPP). Importantly, among countries where between 40 percent and 60 percent of students performed below Level 2 in 2000, Chile reduced that proportion by the largest amount: between 2000 and 2009 the percentage of low performers in Chile dropped by more than 17 percentage points.



29. The Government has launched several reforms to address the Government's priority objective of raising education quality and equity, with the goal of enabling the education system to replace socioeconomic origins as the key factor in children's futures. The Preferential School Subsidy, approved by Congress in February 2008, introduces an extra per-student subsidy for students from disadvantaged backgrounds. A new General Law of Education that redefines the rights and duties of education sector participants, and establishes the State's responsibility to assure that all schools provide quality education was approved by Congress in 2009. Two proposals were embedded in that Law. The first would establish an education quality assurance system by introducing two new agencies to oversee the quality of schools (the Agency for Education Quality), their financial management and budgetary practices, and their compliance with the rules that apply to them (the Superintendency of Education). The second proposal reforms the institutional framework for the administration of public schools and proposes to introduce the National Education Service, a central government agency that would implement education policies and programs, and provide technical-pedagogical support to publicly financed schools (which can be managed by the public or private sector).

Country Development Goal 3: *Provide Effective Protection against Poverty for Chileans across the Income Spectrum*

Government Target: *Chile Solidario*: extend social assistance to a broader class of poor; *Plan AUGE*: increase access to health services; increase illnesses covered; Pension: provide universal minimum pension

30. The Government has made substantial progress in its goal of increasing equality of opportunity and reducing the vulnerability of the poor, in part by developing further its social protection system through: (i) the continued operations and improvements in *Chile Solidario*, designed to support extremely poor families and other vulnerable individuals (including older adults living alone, the homeless, and children of prisoners); and (ii) the recent extension of the system to cover young children through a new program, *Chile Crece Contigo (Sistema de Protección Integral a la Infancia – Integrated System of Protection for Young Children)*.

31. The primary and largest target group for *Chile Solidario* is indigent families with the aim of incorporating roughly 40,000 families a year, although this target can be adjusted upwards or downwards depending on economic conditions in the country. As of December 2009, 370,000 families participated in the program. The expected outcomes from *Chile Solidario* are a decline in the share of households below the extreme poverty line, higher coverage of existing social protection policies and programs among the extreme poor, and improvements in the design and operation of public services to better address the needs of this group. The program and its management have also been reformed, including the targeting instrument. As a result, a substantial share of the population was re-registered by April 2007

32. The primary target group for *Chile Crece Contigo* is children under 4 years of age, with a set of services ranging from those with universal access, others for children born in the public health system, others for children of families in the bottom 40 percent of the welfare distribution, and yet others available for those at risk. *Chile Crece Contigo* represents an important expansion of social protection, including access to improved pre-natal care and delivery for users of public health services and the provision of a child allowance for the bottom 40 percent of households. As of the end of 2008, 473,000 children under the age of 2 had been incorporated into *Chile Crece Contigo*. During 2009, children up to the age of 4 were being incorporated. In the case of *Chile Crece Contigo*, the expected outcome would be better developmental outcomes of young children, particularly those from poor families, thereby helping to improve the equality of opportunity in the country.

33. *Plan AUGE*, a regime of explicit health guarantees, was introduced in 2005, as an important vehicle for strengthening social protection. The Government has gradually increased the number of illnesses covered by *Plan AUGE* from 26 when the program was created, to 56 by 2007 and to 66 by July 2010, and recently announced measures to improve the quality of the services provided and service delivery.

34. Following the recommendations made by the Pension Reform Advisory Council established in March 2006, Chile's Congress in 2008 approved a law containing far-reaching reforms to Chile's pension system. Building on Chile's system of private pension funds, the

reforms broaden coverage and provide a minimum pension to all Chileans, including those that cannot contribute to a private pension account. Key features include a basic universal old-age and disability pension and a minimum pension to all Chileans aged 65 or more; credits to women in their individual accounts to compensate for childbearing years, subsidies to young, poor workers, mechanisms to support and protect customers of the pension fund administrators regime (AFP), and the institutional changes needed to put into effect the new benefits and requirements, which are being phased in gradually.

Country Development Goal 4: *Transform Chile into a Knowledge Economy*

Government Target: Close gap with OECD on innovation indicators

35. In an effort to establish the conditions favorable to transform Chile into a knowledge economy, in January 2008, the National Innovation Council for Competitiveness presented the National Innovation Strategy, which provides a comprehensive plan to foster innovation in Chile over the following 12 years. The three pillars of the strategy focus on (a) increasing substantially the number of individuals that will have completed tertiary education by 2021, (b) developing a strong and sustainable science and technology platform by supporting increased and competitive funding, greater collaboration of research institutions with the productive sector, and an increased number of high quality researchers, (c) fostering research and development by private enterprises.

36. Implementation of the strategy began with increased budgetary allocations innovation, including expenditures in undergraduate tertiary education. Today Chile fares very well when compared to other countries in the Region, but lags severely OECD countries. According to the Global Competitiveness Report 2010-2011, Chile has substantial availability of scientists and engineers (rank 24/139), but the quality of scientific research institutions still remains relatively low (55/139) and the capacity for innovation is still a challenge (59/139). Furthermore, Chile has not moved significantly in these rankings when compared to the report for 2007-2008. The most worrisome trend, however, is the slowdown in the growth in total factor productivity.

III. Assessment of Bank Assistance

37. This section evaluates Bank assistance to Chile under the framework of the four Country Development Goals. Given that there were no outputs or outcomes against which the program could be measured, and under the advice of OPCS, the team prepared a Results matrix that focuses on outputs, thus allowing for an ex-post assessment of the Bank's contribution (see Appendix 1).

Goal 1: Accelerate Convergence with OECD Income Levels

38. The various Bank Group activities supporting economic growth included work on infrastructure and public services, public sector strengthening, and sustainable development and environment. The variety of instruments included investment and development policy loans, financial and technical support from Global Programs, grants under the IDF, studies and

advisory services under the fee-for-service and Joint Studies Program (JSP), and IFC investments.

39. The support for infrastructure and public services included four loans and a GEF Grant. Key results included the institutional overhaul of the Ministry of Public Works (MPW) DPL (closed) and accompanying TAL (ongoing) to improve the efficiency in the use of public resources and increased transparency, competition and citizen participation in the contracting and concession of public works. Specifically, the Bank program provided advice on (a) the drafting of a new Concessions Law, now in place, (b) the development of performance standards for high and low volume roads; and (c) improving competitiveness and monitoring concession services.

40. In the area of urban transport, the Bank supported the implementation of the urban transport reform program through technical assistance and financing provided through the Santiago Urban Transport TAL (ongoing) and the Sustainable Transport and Air Quality for Santiago GEF (closed FY10). The TAL has completed a study on organizational improvements, an Action Plan to mitigate negative effects on street vendors, a study to develop a methodology to analyze the economic and financial standing of bus operators, and a series of pilot projects to improve the quality and efficiency of the system. The results of these studies are assisting the GOC in resolving critical issues that are still being faced by *Transantiago*, linked to management of the system and its finances. Information on the impact of *Transantiago* on air quality is available: greenhouse gas emissions were reduced by an estimated 98,975 tons between 2006 and 2009, a decline of 10.5 percent.

41. Following the Regional Development Study in FY08, the Bank has supported Chile's territorial development initiatives through the ongoing Infrastructure for Territorial Development Project. This project has contributed to the prioritization of infrastructure investments based on the economic development potential of a territory and through an innovative participatory planning process. So far, 29 territorial development plans, or PMDTs, have been prepared, and works are under implementation. The Government will use this tested approach to include new Regions, particularly those affected by the earthquake.

42. IFC's support in energy contributed to the government's sustainable development and environmental aims through the financing of innovative renewable and thermal energy projects. IFC invested \$213.8 million for its own account in four energy projects since 2007 and mobilized an additional \$382.8 million from third party investors for a total \$596.5 million. These investments have increased renewable generating capacity by 220 Megawatt (MW), as well as pioneering new technologies and financing tools for the industry.

43. Bank assistance for public sector strengthening continued through the now completed Integrated Financial Management Project (or *Sistema Integrado de Gestion Financiera del Estado*, SIGFE), and a follow-on project, Integrated Financial Management System Project II (SIGFE II) approved in FY08. Under the first project, SIGFE was implemented in 159 out of 190 government agencies within the central government. With Bank assistance, a comprehensive monitoring and evaluation system was developed by the Budget Office (*Dirección de Presupuestos*, DIPRES) to assess the expenditure management efficiency of 178 government agencies, where 91 government programs were assessed between 2002 and 2006.

SIGFE allowed for the multi-year budget scenarios and available real-time budget information online to decision makers. The follow-up Project (*SIGFE II*), under implementation, is currently implementing the municipal financial management module in 120 municipalities. In addition, an important program of technical assistance was delivered under the fee-for-service and the Joint Studies Program. A Study of Public Policy Evaluation Agencies was carried out to review international experience with evaluation of public policies, as input to the next steps for consolidating the Chilean system of results-based financing and monitoring and evaluating public expenditures. A series of joint studies reviewed and evaluated Chile's experience with its Management Improvement Programs, PMG. This study was welcomed by the GOC who requested a follow-up study recommending implementation mechanisms for the proposed restructuring (to be delivered under the new CPS).

44. Bank Group assistance for sustainable development and environment was integrated into the design of the projects and investments financed by both the Bank and the IFC and described above. Additional assistance was provided by channeling resources from global programs, including GEF, and the Prototype Carbon Fund. These included the Sustainable Transport and Air Quality Project for Santiago (GEF), and Quilleco Hydropower Project (PCF). An Environmental Compliance Strategy, carried out under the framework of the Joint Studies Program (FY09), developed a methodology to optimize the use of resources allocated to review compliance with environmental regulations and develop indicators on the efficacy and efficiency of policies and actions to guarantee compliance with those regulations. Chile's goal of becoming an important global actor in agricultural markets was supported first with a joint study that analyzed public agricultural agencies (research, forestry, natural resources), complementing another that is developing a strategy for agricultural innovation.

Goal 2: *Improve Quality of Education*

45. Extensive Bank support in the Education sector included eight studies, two IBRD loans, and two IFC loans. Under the Joint Studies Program, the Bank provided and continues to country reform initiatives described in Section II.

46. The analytical work on the Design of Education Institutions informed key policy decisions on institutional change, most notably the establishment of the Superintendency of Education and the Quality Evaluation Agency, whose responsibility is to oversee a quality assurance system. The Bank also carried out stand-alone Sector Work on Education Quality Assurance and on tertiary education systems in a specific region of the country (Bio Bio). CPS analytical work assisted in developing the baseline for the monitoring and evaluation of the Preferential School Subsidy. The Joint Studies Program gave priority support to education through studies that covered: Higher Education, Foreign Scholarships, Early Childhood Education Institutions, Information and Communications Technology in Schools, and follow-ups to the first phase of both the School Preferential Subsidy and Design of Education Institutions studies. Analytical work on education has been carried out jointly with OECD, thus informing Chile of the gaps with regard to the OECD community.

47. Additional CPS results include assisting the GOC in laying the foundation for an articulated, and extended learning, and training system, with the participation of the private sector. The now completed Lifelong Learning and Training Project (or *Chile Califica*) supported (a) the establishment of *Contigo Aprendo*, a literacy program targeting young adults and illiterate adults that benefited about 100,000 adults between 2003 and 2009 and (b) the design of the National Labor Competency Certification System, established by law in 2008, that aligns training with labor demands of key sectors and benefits about 100,000 individuals with certified training.

48. The CPS assisted Chile in improving the accountability of the tertiary education system as a foundation for greater effectiveness of public funds. With the support of the Tertiary Education Finance for Results Project already five universities are operating under performance agreements resulting in an increase of 60 percent in the number of students enrolled in national PhD programs between 2005 and 2009. In addition, the percentage of undergraduate students studying under accredited programs, or in the process of being accredited, increased from 25 percent in 2006 to 45 percent in 2009, and efforts to decrease dropout rates surpassed expectations.

49. Lastly, the CPS, through the IFC, financed two tertiary education providers. The IFC invested 6.9 million to support refurbishment of facilities in *Universidad Diego Portales*, a for-profit college, and provided two loans (for a total of \$ 49.3 million) to *Duoc*, a foundation which offers technical training. Most of *Duoc's* students are from middle- and lower-income families. The two clients together enrolled 61,800 students in calendar year 2009, of whom 41 percent were women.

Goal 3: Provide Effective Protection against Poverty for Chileans across the Income Spectrum

50. Bank's support to increase equality of opportunity and reduce the vulnerability of the poor contributed to the scaling-up of the social protection system and first efforts to evaluate its impact. After supporting under the Social Protection Technical Assistance Project the implementation of *Chile Solidario* since it was first established in 2003, under this CPS the Bank contributed to the work of the Presidential Commission that outlined *Chile Crece Contigo*, a program that is now in place and has been rolled out at the municipal level, under the recently approved Additional Financing for the Social Protection Technical Assistance Project. Through both of these instruments and related support, the Bank has assisted with the impact evaluation of ongoing *Chile Solidario*.

51. Under the CPS the Bank assisted the government in the development of a conceptual framework to analyze its policy on specialized health human resources. The ongoing multi-phase Health Human Resources Study, under the Joint Studies Program, has presented a gap analysis of supply and demand for medical specialists in the public health sector for the 2009-2012, and has identified a set of alternative policy options for reducing or eliminating those gaps. The third phase of the Study is undertaking an analysis of the explicit and implicit incentive system in the health system, and their consistency with desired policies. On pensions, the Bank

provided non-lending technical assistance for supervision of pension funds through the FIRST Initiative (Financial Sector Reform Strengthening Initiative).

52. IFC is supporting protection against poverty through its role in financing SMEs. IFC made one investment in a financial services company during the CAS period, achieving a substantial increase in financing for a sector that traditionally struggled to obtain loans from conventional banks. Factorline, a factoring provider focused on the SME sector, made 4,800 SME loans totaling \$430 million in 2007-2009. It also financed micro, small and medium enterprises (MSMEs) with \$11 million in loans in 3,800 transactions. IFC has supported Factorline with two projects during the CAS period for a total \$30 million. IFC made a \$15 million equity investment in 2007, followed by a \$15 million A Loan in 2009.

Goal 4: *Transform Chile into a Knowledge Economy*

53. The CPS program contributed to the development of an effective innovation system and improvement in the stock of human capital through the Science for the Knowledge Economy Project. Efforts under this project jointly with parallel efforts by the government and the private sector have contributed to increase the number of PhD graduates and of PhD scholarships awarded, the private share of total research and development expenditures, and the number of patent applications, of researchers inserted in industry and of research consortia.

54. The CPS program helped develop the governance framework for the National Innovation Council for Competitiveness and make available international experience through several stand-alone Fee-for-Service technical studies. An on-going fee-based service is assisting the Ministry of Agriculture foster innovation through performance contracts for Public Sector Technological Institutes of the Ministry of Agriculture to facilitate their access to public funding.

55. Continued Bank assistance through lending came to a halt when the incoming government (2010) cancelled the Innovation for Competitiveness Project approved in FY08. Reportedly, in this decision the government weighted high the cumbersome Bank procedures that slow down project implementation.

Overall Evaluation of Bank Outcomes

56. The CPS Completion Report rates the contribution of the World Bank Program to the achievement of outcomes as satisfactory. The Bank Group was supportive of Chile's efforts in several of the priority areas the Government had identified for assistance and, in general, delivered the proposed program. The assistance was of particular significance in contributing to an improvement in the quality of education and in expanding the quality and coverage of social assistance. The assistance in public sector development also contributed substantially to reforms that led to improving effectiveness in public sector management.

IV. Results Assessment: World Bank Group Performance

57. The overall evaluation of the World Bank Group Performance is rated as satisfactory. As described in greater detail below, the Bank performed very well in the knowledge and advisory services, while performance was weaker in the area of lending.

Evaluating the Bank's Knowledge and Advisory Services

58. A central feature of the FY07-10 CPS was the provision of just-in-time knowledge services in priority areas selected by the Government as needed to support its development strategy. For Chile, this meant not only greater access to the Bank's expertise in priority areas, and a larger and more responsive program of advisory services, but also facilitation of access to global experience, especially from OECD countries. The Bank's knowledge and advisory services were to be provided through three vehicles: the Bank's traditional program of economic and sector work, a fee-for-service program responding to short, just-in-time products requested by sector ministries, and through a new mechanism that was to be established, the Joint Studies Program (JSP). The JSP was to be established and formalized through an annual work program agreement, detailing the products and services to be provided, and a time-line for their delivery, while including flexibility to add and modify deliverables during the year. The services under the JSP could include non-lending technical assistance and studies, and the Government and the Bank would agree on the pricing of products and details on the financing to be provided by each party.

59. An agreement between Chile and the Bank establishing the JSP was formalized in mid-2008. Since its establishment, a total of 21 studies have been prepared in priority areas selected by the Government, through its National Budget Office (*DIPRES*) that was designated as the official interlocutor for purposes of prioritizing and agreeing to specific studies. Appendix II presents a summary of the studies that have been carried out or are being carried out in FY11 under the JSP. The CPS proposed that knowledge products, although not linked to country outcomes, *per se*, would rather be judged on criteria of their quality, relevance and sustainability.

60. **Quality.** A joint evaluation of the JSP was carried out with the Government in March 2009. The Government's overall conclusion of this evaluation, which reviewed the performance of the Program since its inception was that the program was effective and that all of the agreed tasks had been carried out satisfactorily, achieving the objectives that had been set forth in each case. The evaluation sought to define more precisely the strategic objectives that the Government and the Bank aimed for under the JSP. The following general principles were agreed for studies to be included under the JSP in the future: (i) the studies should concentrate on topics that focus on institutional development and reform in the medium term; (ii) the topics should have an important knowledge focus; (iii) they should reflect public policies at a broader level than purely sectoral ones; and (iv) they should concentrate in areas where the Bank has a comparative advantage in knowledge. In all, the studies that had been carried out at the time of the evaluation met these general principles, even though the JSP's strategic objectives had not been precisely defined when it was established. To ensure this strategic approach, *DIPRES* strengthened its role in coordinating, prioritizing and selecting study proposals since the first two studies under the JSP had not benefitted from this coordination. In all, this evaluation highlights

the high degree of commitment on the part of the Government, both through *DIPRES* and at the sectoral level, the good response on the part of the Bank's technical teams, combined with flexibility and good quality, and the relationship that developed among all of them, which in the end led to developing strong technical collaboration that went way beyond the specific, individual studies. The evaluation confirms that all of the studies met their objectives, and were of high quality. At the same time, it highlights the importance of flexibility as a feature of the JSP, allowing minor adjustments to reflect changes in priorities. The evaluation confirms that the JSP has allowed the Bank to increase considerably the amount of resources available for studies and advisory services, and has reduced the transaction costs related to carrying them out. Finally, the JSP has provided a coordinated framework of the Bank's knowledge and advisory services carried out jointly with the Government, and as a result has led to greater efficiency in the use of resources and a more important contribution to the country's development objectives.

61. **Relevance.** The topics upon which the Government requested Bank knowledge services are all directly related to its development goals, and have provided an important input to policy formulation and institutional reform efforts, as described in Section II of this CPSPR.

62. **Sustainability.** The Government's demand for knowledge services remains strong. Currently, six new studies are programmed, and it is expected that demand will continue.

63. **Evaluation of Knowledge and Advisory Services.** The Bank's Joint Services Program, and other vehicles of knowledge and non-lending technical assistance have provided an important vehicle for providing Chile with access to the knowledge and access to global experience that it requires as an input to priority policies and institutional reforms that it has adopted. The quality and relevance of the JSP and other vehicles, as judged by the Government, is very high. The joint nature of the studies carried out has had an important institutional strengthening impact that goes well beyond the individual studies that are prepared. Demand for the Bank's knowledge services remains high. The evaluation of the CPS in this aspect of the Bank's assistance rates performance in the area of knowledge and advisory services as Highly Satisfactory as the studies have had a substantial contribution on the policy decision-making process in Chile.

Project Results

64. **New Lending.** The CPS proposed a very limited program of new lending from FY07 to FY09, consisting of four loans for a total of US\$85.5 million, of which three were investment loans and one a DPL, and the possibility of additional lending in the amount of US\$85 million for a then unidentified project. The four identified projects were approved during the CPS period (Appendix III). The CPS Progress Report further identified new lending for FY10 in the amount of US\$13 million for two projects: an Additional Financing Loan for the Social Protection Technical Assistance Project (US\$3 million) and a Tertiary Education Project (US\$10 million). Of these, only the Additional Financing was approved in FY10; processing of the Tertiary Education Project was delayed to FY11. The US\$30 million loan for the Promoting Innovation and Competitiveness Project, approved in FY08, was subsequently cancelled in FY10 when the new Administration reconsidered its priority of external borrowing for the Project.

65. IFC's investments in Chile doubled during the period covered by this CAS. Investments totaled \$776.6 million in 15 projects, of which 80 percent was channeled to four power projects. The Corporation mobilized \$392.8 million in additional financing for clients through its B Loan program, alongside \$383.9 million in loans and equity investments for its own account. IFC financed 13 projects during the previous four-year period for a total \$370.7 million.

66. The CPS called for IFC investments in four strategic areas: energy, tertiary education, specialized financial mechanisms to support SMEs, and low-income housing finance. IFC was able to deliver in three of these areas. It was unable to enter the low-income housing market. Nonetheless, it was able to support the government's energy and environmental policies with a substantial infrastructure program that focused on renewable energy projects. IFC also completed two transactions supporting a private, not-for-profit higher education provider. The Corporation was also able to enter the highly competitive Chilean financial industry to support a pioneering non-bank focused on SMEs that often lack financing on competitive terms.

67. **Portfolio Level.** The Bank's lending portfolio in Chile was and continues to be small, but generally well performing, and focused exclusively in those areas where the Government felt that the Bank's support through a lending instrument was desirable. The investment portfolio at present consists of five operations with a total commitment of US\$105.3 million net of cancellations and an amount of US\$44.3 million remaining undisbursed. Table 3 below presents a summary of the main portfolio indicators over the CPS period.

Table 3: Selected Indicators of Bank Portfolio Performance and Management

CPS Period					
Indicator	FY06	FY07	FY08	FY09	FY10
<i>Portfolio Assessment</i>					
Number of Projects under Implementation	9	7	8	7	6
Average Implementation Period	3.5	2.2	2.9	3.5	4.2
percent of Problem Projects by Number	0	14.3	12.5	14.3	33.3
percent of Problem Projects by Amount	0.0	24.1	2.1	2.5	30.8
percent of Projects at Risk by Number	0	14.3	25.0	14.3	33.3
percent of Projects at Risk by Amount	0.0	24.1	14.9	2.5	30.8
Disbursement Ratio (percent)	21.1	10.9	18.1	20.8	16.0
<i>Portfolio Management</i>					
CPPR during the Year (yes/no)	Yes	Yes	Yes	Yes	No*
Supervision Resources (total US\$)	679	730.9	857.2	1,127.7	976.1
Average Supervision (US\$/project)	75	104.4	107.2	161.1	162.7

* The CPPR for FY10 was postponed to August 2010 in response to the GOC's request given that staff was not available because of the earthquake and the change in government administration.

68. Two issues stand out as affecting more than one project in the portfolio: procurement and slow disbursements. Several projects faced problems with the use of the central purchasing system of Chile, *ChileCompra*, and some stringent requirements of Bank procurement rules. The Bank worked with Chile to agree on procurement arrangements that made possible, to some extent, the use of *ChileCompra* in Bank-financed projects. The adoption by the Bank of revised procurement guidelines in FY2011 is expected to greater facilitate the use of *ChileCompra*. The other issue that affected several loans was that of low disbursements, due mostly to Chile's strong fiscal position and ability to finance projects without the use of the corresponding Bank loans.

69. All of the projects that exited the portfolio during the CPS period were evaluated as either Satisfactory or Moderately Satisfactory by IEG (Appendix IV).

70. Individual Project Level. Individual project progress towards the accomplishment of their development objectives is presented, by project, in Appendix V. By and large, project implementation proceeded well and all of the projects are making progress towards the accomplishment of their objectives.

71. Evaluation of Project Results and Portfolio Performance. Despite solid progress towards expected project outcomes, portfolio performance in general was affected by several factors, especially toward the end of the CPS period. First, the focus on systemic reforms, especially in infrastructure, turned out to be more problematic (e.g., *Transantiago*) and subject to factors beyond the control of the executive (e.g., the Ministry of Public Works' Organic Law). Second, the earthquake in Chile in early 2010 resulted in a redirection of the Government's priorities towards addressing critical infrastructure rehabilitation and other issues. Finally, the government transition, also in early 2010, led to a reprioritization of the Government's requests for external financing, with the result that financing for the follow-on to a highly successful Innovation project was canceled before implementation started. Still, while affected by transient issues, by most comparisons, project implementation and portfolio performance in Chile has traditionally been exceptionally good, and the project results generally satisfactory or highly satisfactory. Perhaps what this means is that there is a need to search for a better indicator by which to measure the overall impact of Bank lending and portfolio supervision that reflects the results achieved through ending assistance. The evaluation of the CPS in this aspect of the Bank's assistance rates performance in the area of project results and portfolio performance as Moderately Satisfactory overall, although there are specific projects for which a much higher rating would be justified.

V. Lessons and Recommendations

72. ***The results framework for a CPS must allow the partners to measure the impact and the contribution of the program.*** The emphasis that the CPS under review placed on linking the impact and contribution of the program to progress towards long-term development proved misplaced because the World Bank Group in Chile is financially small and covers only selected areas. In these circumstances, the contribution of the program to development outcomes is limited, difficult to determine and highly conditional on events or decisions that the program does not control or influence. The Completion Report effort to retrofit the results framework shows that the focus should be on outcomes lower level than development goals. Hence, the

results framework for the next CPS should focus on lower level impact indicators that best capture the contribution of the program, which is likely to become even more focused on knowledge products.

73. ***Make the CPS design consistent with a flexible approach.*** Flexible aspects of the CPS program worked well. The success of the Joint Studies Program, with annual programming responding to emerging priorities is perhaps the best example of flexibility contributing timely inputs to government policy decisions. Fee for services are another example of demand driven cooperation that has worked well. The implementation of CPS under review shows that a knowledge intensive program can help the authorities advance institutional reform initiatives, like was the case in transportation, social assistance, education, public financial management and innovation. As these aspects become dominant, the challenge for the design of the CPS will be to embed flexibility within a structured partnership framework. Meeting these challenges will require a continuous dialogue on the areas of engagement with a periodic updating of the program to reflect new activities and their expected contribution. In addition, mechanisms are needed to assure the quality of the services provided and products delivered as well as an accurate recording of the results achieved.

74. ***The Bank should make greater headway in the use of country systems when the risk associated with governance and public finance management in countries are low like they are in Chile.*** The limited headway in the use of countries in higher middle income countries artificially limits the capacity of the Bank to establish closer country partnerships through lending. It is advisable therefore that the Bank uses the limited number of coming projects during the next CPS to work closely with the client to better reflect the situation of a country like Chile fixing procurement and other financial management arrangements. Effective solutions that enable an effective implementation of projects with due consideration for Bank procurement policy will not only increase the effectiveness of Bank interventions but will serve to open options for future engagement.

75. ***Find a way to share Chile's development experience and lessons.*** Future WBG engagement in Chile should focus on creating mechanism that help channel the Chilean successful experiences in the transformation that has gone into turning Chile into a high middle income country as well as the current efforts to meet the challenges to move to developed income status. In this regard, continued Bank Group involvement with Chile is a win-win proposition as the transfer of Chile's experience in results-based budgeting, social protection and tertiary education reform shows.

**Appendix 1a: Chile Country Partnership Strategy FY07-FY10
Results Matrix as of June, 2010**

GOVERNMENT'S DEVELOPMENT GOAL I: ACCELERATE CONVERGENCE WITH OECD INCOME LEVELS		
RESULT AREA I – INFRASTRUCTURE AND PUBLIC SERVICES		
<i>Institutional Outcomes in the Government's Action Plan that the CPS supported</i>	<i>Outputs of the CPS program</i>	<i>Instruments and Partners</i>
➤ Efficient use of public resources and increased transparency, competition and citizen participation in the contracting and concession of public works	<ul style="list-style-type: none"> ❖ Support to the Ministry of Public Works (MPW)'s Reform and the elaboration of Competitiveness Plans for all regions in Chile ❖ Support to draft the new Concessions Law, approved by Congress in January 2010 ❖ Web-based system to monitor 21 road concessions according to quality indicators is operating. 	<p>Ministry of Public Works (DPL, FY07-FY08)</p> <p>Ministry of Public Works (TAL, FY08-FY14)</p> <p><i>Ministry of Public Works</i></p>
➤ Efficient and sustainable urban transport system for Metropolitan Santiago	<ul style="list-style-type: none"> ❖ A draft law to create a Metropolitan Transport Authority was submitted to Congress ❖ Transantiago improved the air quality in Santiago city: greenhouse gas emission were reduced by 10.5 percent between 2006 and 2009 ❖ A study to design an Action Plan to mitigate Transantiago's negative effects on street vendors is close to completion and a study on organizational improvements for Transantiago is ongoing ❖ A study to develop a methodology to analyze the economic and financial standing of bus operators was completed. ❖ Pilot projects developed to improve the quality and efficiency of the transport system 	<p>Santiago Urban Transport (TAL, FY06-FY12)</p> <p>Sustainable Transport and Air Quality for Santiago (GEF, FY04 – FY10)</p> <p><i>Transantiago</i></p>
➤ Increased effectiveness and productive use of sustainable infrastructure services	<ul style="list-style-type: none"> ❖ Regional development study supported territorial development initiatives ❖ 29 territorial development plans (PMDTs) have been prepared and works are under implementation. 	<p>Infrastructure for Territorial Development (SIL, FY05 – FY12)</p> <p><i>SUBDERE.</i></p>
➤ Promotion of innovative renewable and thermal energy projects	<ul style="list-style-type: none"> ❖ IFC investments have increased renewable generating capacity by 220 MW, as well as pioneering new technologies and financing tools for the industry 	<p>IFC invested and mobilize from third party investors a total of US\$596.5 million in energy projects since 2007.</p>

RESULT AREA II – PUBLIC SECTOR STRENGTHENING

<i>Institutional Outcomes in the Government's Action Plan that the CPS supported</i>	<i>Outputs of the CPS program</i>	<i>Instruments and Partners</i>
<p>➤ Strengthened public financial management, budget formulation and execution, transparency, and accountability</p>	<ul style="list-style-type: none"> ❖ SIGFE was implemented in 159 out of 190 government agencies within the central government ❖ 178 agencies and 91 government programs were evaluated between 2002 and 2006 on their expenditure management efficiency using monitoring and evaluation tools developed by DIPRES ❖ A study on Public Policy Evaluation Agencies as input to consolidate Chile's system of results-based financing, monitoring, and evaluation of public expenditures. ❖ A programmatic studies on public sector management delivered to inform policy debate ❖ Assessment of Chile's social security reform management 	<p>Public Expenditure Management (SIL, FY03-FY07)</p> <p>Public Expenditure Management II (SIL, FY08-FY13)</p> <p><i>DIPRES - SIGFE</i></p> <p>Public Policy Evaluation Agencies Phases I & II (JSP, FY09-FY10)</p> <p>Improvement of Public Sector Services Phases I & II (JSP, FY09-FY10)</p> <p>Management of Chile's Social Security Reform (JSP, FY10)</p> <p><i>DIPRES</i></p>

RESULT AREA III – SUSTAINABLE DEVELOPMENT AND ENVIRONMENT

<i>Institutional Outcomes in the Government's Action Plan that the CPS supported</i>	<i>Outputs of the CPS program</i>	<i>Instruments and Partners</i>
<p>➤ Sustainable management of natural resources</p>	<ul style="list-style-type: none"> ❖ Ongoing project aimed at providing financial support through a market-based mechanism for private investment in the power sector that reduce global greenhouse gas emission. ❖ Transantiago improved the air quality in Santiago city: greenhouse gas emission were reduced by 10.5 percent between 2006 and 2009 ❖ A methodology to optimize the use of resources allocated to review compliance with environmental regulations ❖ Indicators on the efficiency of policies and actions to guarantee compliance with regulations developed. 	<p>Quilleco Hydropower Project (PCF, FY11-FY13)</p> <p><i>COLBÚN, S.A.</i></p> <p>Sustainable Transport and Air Quality for Santiago (GEF, FY04 – FY10)</p> <p>Environmental Compliance Strategy (JSP, FY09)</p> <p><i>CONAMA</i></p>

GOVERNMENT'S DEVELOPMENT GOAL II: IMPROVE QUALITY OF EDUCATION

RESULT AREA IV – IMPROVE QUALITY OF EDUCATION

<i>Institutional Outcomes in the Government's Action Plan that the CPS supported</i>	<i>Outputs of the CPS program</i>	<i>Instruments and Partners</i>
<p>➤ Strengthened education quality assurance system</p>	<ul style="list-style-type: none"> ❖ Analytical support to contribute to education reform aimed at creating a new institutional education system, including the establishment of the new agencies for education quality assurance the Superintendence of Education and the Quality Evaluation Agency ❖ Joint Bank–OECD assessment of the tertiary education system in the Bio Bio Region to inform policy discussions on potential contributions of the tertiary education to the regional private sector development and innovation capacity. ❖ Technical assistance to implement the education quality assurance institutional reform ❖ Analytical support to inform key policy decisions on institutional change related to tertiary education systems (e.g. unequal access, marked segmentation, inflexible curricula, financing practices, and governance and management systems) and recommendations to improve it . ❖ Joint Bank–OECD assessment of the foreign scholarship program <i>Becas Chile</i> and recommendations to going forward delivered. ❖ Assessment of the global evidence and Chile's current service delivery, institutional arrangements, quality assurance, financing, and sector coordination in Early Child Development (ECD) policies ❖ Analytical support to provide recommendations on policy options regarding the use of Information and Communications Technologies (ICT) in primary and secondary education. 	<p>Management Models and Development of New Education Institutions in Chile (JSP, FY09-FY10)</p> <p>Tertiary Education and Regional Development Strategy for the Bio Bio Region (Joint Study with OECD, FY10)</p> <p><i>Government of the Region of Bío Bío; Innova Bío Bío; The Regional Council for Science and Technology (CORECYT)</i></p> <p>Technical Collaboration for the Implementation and Evaluation of the School Preferential Subsidy (JSP, FY09-FY10)</p> <p>Review of Tertiary Education System in Chile (Joint OECD Study, FY09)</p> <p>A Review of Chile's Higher Education Scholarships Program (Joint Study with OECD, FY10)</p> <p>Institutional Framework for Early Child Development in Chile (JSP, FY10)</p> <p>ICT Policy in Chilean Primary and Secondary Education (JSP, FY10)</p>
<p>➤ Life-long learning policies and training systems launched</p>	<ul style="list-style-type: none"> ❖ Technical assistance to establish the foundation for an articulated, extended lifelong learning and training system to benefit illiterate adults ❖ Support to the <i>Contigo Aprendo</i>, a literacy program targeting young 	<p>Lifelong Learning and Training – <i>Chile Califica</i> (SIL, FY02 – FY10)</p> <p><i>Ministry of Education, National Employment and Training Agency, Fundacion Chile</i></p>

	<p>adults and illiterate adults which benefited 100,000 adults between 2003 and 2009.</p> <ul style="list-style-type: none"> ❖ Support to the design of the National Labor Competency Certification System, which benefited about 100,000 individuals with certified training 	
<p>➤ Improved accountability of tertiary education system to enhance effectiveness of public funds</p>	<ul style="list-style-type: none"> ❖ Five universities are operating under performance agreements aimed at stimulating institutional effectiveness in critical areas ❖ Students enrolled in national PhD programs increased by 60 percent between 2005 and 2009 ❖ Undergraduate students in accredited programs or in the process of being accredited increased from 25 percent to 45 percent between 2006 and 2009. ❖ Support to refurbish the <i>Universidad Diego Portales'</i> facilities. ❖ Increased enrolment rates of students from middle- and lower-income families through student loan programs. 	<p>Tertiary Education Finance for Results Project (1st Phase APL, FY06 – FY10) <i>Mecesup</i></p> <p>IFC invested US\$6.9 million in a tertiary education institution and provided US\$49.3 million for a student loan program <i>Universidad Diego Portales & Duoc</i></p>
GOVERNMENT'S DEVELOPMENT GOAL III: PROVIDE EFFECTIVE PROTECTION AGAINST POVERTY FOR CHILEAN ACROSS THE INCOME SPECTRUM		
RESULT AREA V – ENHANCING SOCIAL PROTECTION POLICIES		
<i>Institutional Outcomes in the Government's Action Plan that the CPS supported</i>	<i>Outputs of the CPS program</i>	<i>Instruments and Partners</i>
<p>➤ Increased access to safety nets and to social services for the poor</p>	<ul style="list-style-type: none"> ❖ Support for expanding <i>Chile Solidario</i>, designed to support extremely poor families and other vulnerable individuals, and <i>Chile Crece Contigo</i>, the Integrated System of Protection for Young Children. ❖ Multi-phase Health Human Resources Study provided conceptual framework to identify and remove gaps in the delivery of the health services. ❖ Technical Assistance on reforming the regulatory and supervisory framework for pension funds that emphasizes efficient risk management ❖ Assessment of the equality of opportunity conditions at national and sub-national level in Chile 	<p>Social Protection (TAL, FY04-FY10) <i>MIDEPLAN</i></p> <p>Health Human Resources Study Phases I-III (JSP, FY09-FY10)</p> <p>FIRST Chile Risk-based regulation of pension funds (TA, FY07-FY10)</p> <p>Index of Equality of Opportunity (ESW, FY09)</p>

GOVERNMENT'S DEVELOPMENT GOAL IV: TRANSFORM CHILE INTO A KNOWLEDGE ECONOMY

RESULT AREA VI – FOSTERING INNOVATION

<i>Institutional Outcomes in the Government's Action Plan that the CPS supported</i>	<i>Outputs of the CPS program</i>	<i>Instruments and Partners</i>
<p>➤ Effective innovation systems and qualified human capital in the science and technology sector</p>	<ul style="list-style-type: none"> ❖ Increased number of PHD graduates from 144 to 222, private share of total R&D expenditures from 34.4 percent to 48.1 percent, research consortia from 5 to 8, and PHD scholarships to 575. ❖ Technical assistance to NICC provided strategic proposals to improve mechanism for facilitating technology commercialization and technology transfer to enterprises in Chile. ❖ Ongoing study on policy strategy to incentive agri-food and forestry innovation systems to be delivered in FY11. 	<p>Science for the Knowledge Economy (SIL, FY03-FY07)</p> <p>National Commission for Science and Technology (CONICYT)</p> <p>Fostering Technology Transfer and Commercialization (JSP, FY10)</p> <p><i>National Innovation Council for Competitiveness (NICC)</i></p> <p>Review of challenges and response of the agri-food and forestry innovation systems (FBS, FY10-FY11)</p> <p><i>MINAGRI</i></p> <p>Promoting Innovation and Competitiveness Project (SIL, FY09-FY10) – Project was CANCELED 1/</p> <p><i>Ministry of Finance</i></p>

1/ This project was canceled in July 2010 by Government's request.

**Appendix II: Chile – CPS Planned Lending Program and Actual Deliveries
(FY2007-FY2010)**

CPS Plan (April 24, 2007)			Status in CPS Progress Report (September 29, 2009)	
FY	Project	IBRD (US\$m)	Status ¹³	IBRD (US\$m)
2007	Ministry of Public Works Strengthening DPL	30.0	Actual	30.0
	Ministry of Public Works Strengthening TAL	5.5	Actual	11.7
2008	Integrated Financial Management System (SIGFE) II	20.0	Actual	24.8
	Innovation and Competitiveness APLII (follow up to Science and Knowledge Economy)	25.0	Actual ¹⁴	30.0
2009	To be Determined	85.0	No lending in FY2009	0.0
Subtotal FY2007-2009		165.5 ¹⁵		96.5
CPS Progress Report Plan (September 29, 2009)			June 30, 2010	
2010	Social Protection TA Additional Financing	3.0	Actual	3.0
	Tertiary Education Financing APL2	10.0		
Subtotal FY2010		13.0		3.0
Total FY2007-FY2010				99.5

¹³ Actual, Dropped or Forwarded to a different FY.

¹⁴ Name of the Project was changed to Promoting Innovation and Competitiveness

¹⁵ The CPS also proposed an amount of US\$85 in lending to be determined for FY2010.

**Appendix III: Chile – Planned Nonlending Services and Actual Deliveries
Joint Annual Studies Program**

Areas of Bank Support	FY2009	FY2010	Planned FY2011
Innovation			<u><i>Institutionalizing Agroindustrial Innovation</i></u> An analysis of public sector agencies responsible for agroindustrial innovation (research, forestry and natural resources), and the design of an institutional strategy to promote innovation.
Infrastructure and Public Services			
Public Sector Management	<u><i>Public Policy Evaluation Agencies</i></u> A comparative study on the international experience in agencies responsible for evaluating public policies <u><i>Gestion de La Calidad PMG</i></u> An evaluation of the Government's Programas de Mejoramiento de La Gestion en los Servicios Públicos (PMG), and an international seminar to present results.	<u><i>Public Policy Evaluation Agencies, Phase 2</i></u> A continuation of Phase 1, with recommendations regarding application of international experience to the Chilean context. <u><i>Gestion de La Calidad PMG, Phase 2</i></u> An Executive Summary for disseminating the PMG and a report containing and analysis of quality management, together with recommendations for the design of a next phase. <u><i>Modernizacion de La Gestion Pública</i></u> An analysis of management of information technology in the reform of pension administration.	<u><i>Gestion de La Calidad PMG, Phase 3</i></u> <u><i>Insurance Sector Review</i></u>
Sustainable Development and Environment	<u><i>Environmental Compliance Strategy</i></u> The design of a strategy that combines positive incentives and enforcement mechanisms to ensure an adequate adherence of key productive sectors to environmental priorities and regulations.	<u><i>MINIAGRI Review</i></u> A review of the Public Technological Institutes attached to the Ministry of Agriculture.	<u><i>Water Resources Study</i></u>
Education	<u><i>Higher Education Report w/OECD</i></u> A critical input in defining the médium-term strategy for higher education in Chile. <u><i>Preferential School Subsidy</i></u> The development of a	<u><i>International Institutional Models for Early Childhood Education</i></u> An international comparison of the institutional framework for early childhood education in Chile and in México, New Zealand and Sweden. <u><i>International Best-Practice in</i></u>	<u><i>System Analysis of Tertiary Education Student Financial Support</i></u> Analysis of existing student aid grant and loan programs and their efficiency and efficacy in promoting equitable access to tertiary education. Recommendations will help consolidate and

	<p>monitoring and evaluation system that will support impact evaluation for the newly established preferential school subsidy introduced for students from socioeconomically disadvantaged backgrounds.</p> <p><u>Design of Education Institutions</u> The design of a new institutional structure for the educational sector that will address challenges such as improving quality and ensuring an efficient use of the increased funding for primary and secondary education</p>	<p><u>Programs to Increase Access to Computers</u> A survey of international experience with programs to increase access to computers.</p> <p><u>Design of Education Institutions, Phase 2</u> A continuation of Phase 1, providing an in-depth analysis at the design and implementation of quality assurance systems in selected OECD systems, and drawing lessons for Chile</p> <p><u>Preferential School Subsidy, Phase 2</u> Refinement of methodology to evaluate the impact of the Preferential School Subsidy Program and apply it to observe first-year effects of the program.</p> <p><u>Foreign Scholarship Review w/OECD</u></p> <p><u>Bio Bio Tertiary Education Review w/OECD</u></p>	<p>streamline student aid programs.</p>
<p>Social Protection</p>	<p><u>Index of Equity of Opportunity</u> A diagnostic of the equality of opportunity conditions at the national and sub-national level in Chile.</p> <p><u>Health Human Resources Study</u> A gap analysis of the various medical specialties to ensure a proper supply of specialists in the public health system.</p>	<p><u>Health Human Resources, Phases 2 and 3</u> A continuation of Phase 1. Phase 2 consists of an analysis of gaps between supply and demand for medical specialists in Chile. Phase 3 consists of an analysis of implicit and explicit incentive in the health system, their coherence and consistency with the policy objectives, and their sustainability in light of the market conditions in the short and long term.</p>	<p><u>Improvements in Health Financing</u></p>

Appendix IV: Ratings for Projects that Exited the Portfolio during CPS Period

Project	Outcome Rating	Risk to DO Rating	Bank Performance	Borrower Performance
MPW DPL	Satisfactory	Moderate	Satisfactory	Satisfactory
IEG	Moderately Satisfactory	Significant	Moderately Satisfactory	Moderately Satisfactory
Public Expenditure Management I	Satisfactory	Moderate	Satisfactory	Satisfactory
IEG	Satisfactory	Moderate	Satisfactory	Satisfactory
Lifelong Learning and Training	Satisfactory	Moderate	Satisfactory	Satisfactory
IEG	NA	NA	NA	NA
Santiago Urban Transport DPL	Moderately Satisfactory	Moderate	Moderately Satisfactory	Moderately Satisfactory
IEG	NA	NA	NA	NA
Sustainable Transport Air Quality for Santiago	Moderately Satisfactory	Moderate	Moderately Satisfactory	Moderately Satisfactory
IEG	NA	NA	NA	NA
Science for the Knowledge Economy	Satisfactory	Low or Negligible	Satisfactory	Satisfactory
IEG	Moderately Satisfactory	Negligible to Low	Satisfactory	Satisfactory

**Appendix V: Areas of Engagement: Ongoing, Agreed and under Consideration
At the time of the CPS Consideration, and actual during period (FY2007-2010)**

		Proposed in CPS		Actual during CPS Period FY2007-2010	
Proposed Areas of Cooperation	Country Development Goals	Portfolio and Lending	AAA/non-lending technical advice	Portfolio and Lending	AAA/non-lending technical advice
Innovation and Business Climate	Transform Chile into a knowledge economy. Follow lead of other resource rich and open countries, Finland, New Zealand and Australia. Diversify beyond exports of copper, and other commodities to software and knowledge.	Ongoing Science for the Knowledge Economy (APL I) Agreed w/Government Innovation and Competitiveness	Agreed w/Government Institutionalizing Agroindustrial Innovation	Ongoing Science for the Knowledge Economy (APL I) – Closed on March 31, 2007 New Lending Promoting Innovation and Competitiveness (FY2008)	ESW FFS Governance of National Innovation System (FY2008) Credit Reporting System (FY2008) Fostering Technology Transfer (FY2009) CORFO Evaluation of Foreign Investment Program (FY2010) JSP Other NLTA
Infrastructure and Public Services	Increase access of all Chileans to public services and boost competitiveness. <u>Housing:</u> By 2014 ensure adequate housing for all families. <u>Transport:</u> Build a system that is more accessible, efficient and clean. <u>Energy:</u> Establish greater energy	Ongoing Infrastructure for Territorial Development Transantiago Urban Transport TA Sustainable Transport and Air Quality (GEF) Quilleco Hydropower (GEF) Hornitos (GEF) Chacabuquito The IFC is financing renewable energy with	Agreed w/Government Contingent Liabilities and Transport Concessions (FFS)	Ongoing Infrastructure for Territorial Development Transantiago Urban Transport TA Quilleco Hydropower (GEF) Hornitos (GEF) Chacabuquito Hydropower (GEF) New Lending Ministry of Public Works Strengthening DPL (FY2007)	ESW Regional Development Study (FY2008) FFS Advisory Services for Study of Railroad (FY2008) JSP Other NLTA

		Proposed in CPS		Actual during CPS Period FY2007-2010	
Proposed Areas of Cooperation	Country Development Goals	Portfolio and Lending	AAA/non-lending technical advice	Portfolio and Lending	AAA/non-lending technical advice
	independence, by reducing barriers to investment and through the use of alternative fuel sources.	two projects already in portfolio and a solid pipeline of conventional and non-conventional renewable energy projects <u>Agreed w/Government</u> Institutional Strengthening: Ministry of Public Works (DPL) Institutional Strengthening: Ministry of Public Works (TA)		Ministry of Public Works Strengthening TA (FY2007)	
Public Sector Strengthening	Continue modernization of the state for better service to the citizen. Reduce the concentration of Power in Santiago, give greater voice and participation to citizens, and empower local governments to respond to local challenges.	<u>Ongoing</u> Integrated Financial Management System Project (SIGFE) Juvenile Justice (IDF) <u>Agreed w/Government</u> Integrated Financial Management System Project (SIGFE) II	<u>Ongoing</u> Risk Based Financial Sector Oversight Framework (FFS, FIRST) (i) Implementing Risk-Based Supervision in the Securities Industry (ii) Roadmap for Strengthening Solvency Control in the Insurance Industry (iii) Risk-Based Regulatory and Supervisory Framework for Pension Funds Managing Financial Assets of the State (FFS) <u>Agreed w/Government</u> Regional Development Strategy for the Tarapaca (I) and Arica-Parinacota	<u>Ongoing</u> Integrated Financial Management System project (SIGFE) – Closed on June 30, 2007 Juvenile Justice (IDF) – Closed on February 9 2010 <u>New Lending</u> Integrated Financial Management System Project (SIGFE) II (FY2008) Strengthening Chile’s Council for Transparency and Accountability (IDF) (FY2010)	<u>ESW</u> <u>FFS</u> Management of Financial Assets (FY2008) Evaluation of Management Enhancement Programs (FY2008) <u>JSP</u> Public Policy Evaluation Agencies (FY2009) Gestión de la Calidad PMG (FY2009) Public Policy Evaluation Agencies, Phase 2 (FY2010) Gestión de la Calidad, Phase 2 (FY2010)

		Proposed in CPS		Actual during CPS Period FY2007-2010	
Proposed Areas of Cooperation	Country Development Goals	Portfolio and Lending	AAA/non-lending technical advice	Portfolio and Lending	AAA/non-lending technical advice
			(XV) regions (ESW) Impact Evaluation of Chile's Management Enhancement Program TA (FFS) <u>Under Consideration</u> Credit Reporting System (JSP)		Modernización de la Gestión Pública (FY2010) <u>Other NLTA</u> Global Cat Mutual Bond Risk Model (FY2009) Risk-based Insurance Supervision (FY2009)
Sustainable Development and the Environment	Develop a policy framework that is compatible to economic growth, protection of natural resources, and greater social equity. <u>Agriculture:</u> Support the Government's dual objective of becoming the tenth largest agricultural exporter while achieving inclusion of medium and small farmers. <u>Environment:</u> Implement a concept of sustainable development.	<u>Ongoing</u> Sustainable Land Management Project (GEF) Sustainable Transport and Air Quality for Santiago (GEF) Reduction of Ozone (MP) <u>Under Consideration</u> National Biodiversity Cluster (GEF) Development of Ecological Services Market (GEF) Climate Change Adaptation in Water Resource Management (GEF) Biodiversity in Infrastructure Planning: Biodiversity Cluster (GEF)	<u>Under Consideration</u> Capacity Building for Civil Society Organizations to Contribute to Development Planning	<u>Ongoing</u> Sustainable Land Management Project (GEF) – Closed on December 31, 2007 Sustainable Transport and Air Quality for Santiago (GEF) – Closed September 30, 2009 Reduction of Ozone (MP) – Closed on June 30, 2007 <u>New Lending</u> Quilleco Hydropower Project (PCF)	<u>ESW</u> <u>FFS</u> <u>JSP</u> Environmental Compliance Strategy (FY2009) MINIAGRI Review (FY2010) <u>Other NLTA</u> Remote Sensing Damage Assessment (FY2010) PCB Decommissioning and Disposal Plan (FY2010)
Education	Improve quality of education.	<u>Ongoing</u> Tertiary Education	<u>Under Consideration</u> Review of higher	<u>Ongoing</u> Tertiary Education Finance	<u>ESW</u> Education Quality Assurance

		Proposed in CPS		Actual during CPS Period FY2007-2010	
Proposed Areas of Cooperation	Country Development Goals	Portfolio and Lending	AAA/non-lending technical advice	Portfolio and Lending	AAA/non-lending technical advice
	Enable the education system to replace socioeconomic origins as the key factor in the future of children.	Finance for Results (APL I) Lifelong Learning and Training Project	education w/ OECD (JSP) Non-lending technical advice on Reform of Ministry of Education and Superintendency (JSP)	for Results (APL I) Lifelong Learning and Training Project – Closed on December 31, 2009	(FY2007) <u>FFS</u> <u>JSP</u> Higher Education Report w/OECD (FY2009) Preferential School Subsidy (FY2009) Design of Education Institutions (FY2009) International Institutional Models for Early Childhood Education (FY2009) International Best-Practice Programs to Increase Access to Computers (FY2010) Design of Education Institutions, Phase 2 (FY2010) Preferential School Subsidy, Phase 2 (FY2010) Foreign Scholarship Review w/OECD (fy2010) Bio Bio Tertiary Education (FY2010) <u>Other NLTA</u>
Social Protection	Provide effective protection against poverty for Chileans across the income spectrum. <u>Chile Solidario</u> : extend social assistance to a	<u>Ongoing</u> Social Protection TA Capacity Development for Legal Practitioners in Gender Equality (IDF)	<u>Under Consideration</u> Non-lending TA on evaluation of Chile Crece Contigo (JSP) Continued Impact Evaluation of Chile Solidario (JSP)	<u>Ongoing</u> Social Protection TA – Closed on December 31, 2009 Capacity Development for Legal Practitioners in Gender Equality (IDF) – Closed on July 18, 2007	<u>ESW</u> <u>FFS</u> <u>JSP</u> Index of Equity of Opportunity (FY2009) Health Human Resources Study

		Proposed in CPS		Actual during CPS Period FY2007-2010	
Proposed Areas of Cooperation	Country Development Goals	Portfolio and Lending	AAA/non-lending technical advice	Portfolio and Lending	AAA/non-lending technical advice
	<p>broader class of the poor.</p> <p><u>Plan Auge</u>: ubcrease access to health services; increase illnesses covered.</p> <p><u>Pension System</u>: provide universal minimum pension.</p>			<p><u>New Lending</u> Social Protection TA Additional Financing (FY2010) Institutional Strengthening of Mining Sector for Indigenous Peoples Inclusion (IDF) (FY2010)</p>	<p>(FY2009) Health Human Resources Study, Phases 2 and 3 (FY2010)</p> <p><u>Other NLTA</u> Gender Equity in Private Sector (FY2009) Pension Fund Supervision TA (FY2010)</p>

“Under Consideration” signifies that there were ongoing discussions with the relevant ministries at the time the CPS was prepared.

ESW – Formal ESW

FFS – Fee for Service

JSP – Joint Studies Program

NLTA – Non-lending Technical Assistance

Appendix VI: Reference Documents

Country Partnership Strategy for Chile, 2007-2010, Report No. 38691-CL

Implementation Completion and Results Report:

- Institutional Strengthening of the Ministry of Public Works Development Policy Loan, Report No. ICR00001064 dated June 29, 2009
- Sustainable Transport and Air Quality for Santiago (GEF), Report No. ICR00001317 dated March 24, 2010
- Lifelong Learning and Training Project, Report No. ICR1390 dated September 3, 2010
- First Public Expenditure Management Project, Report No. 0000629 dated December 7, 2007
- Santiago Urban Transport Programmatic Development Policy Loan, Report No. ICR0000631 dated August 11, 2009
- Science for the Knowledge Economy, Report No. ICR0000491 dated September 26, 2007

Project Appraisal Documents for ongoing projects

Implementation Status Reports for ongoing projects

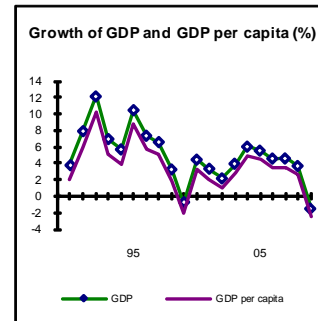
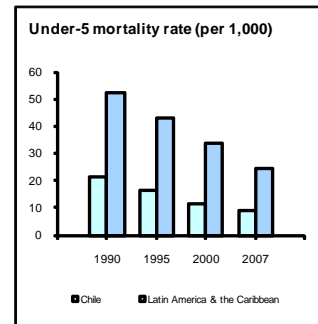
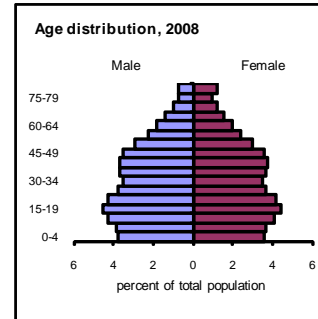
Country Partnership Strategy Progress Report for the Republic of Chile, Report No. 50878-CL dated September 29, 2009

Aide Memoires/Letters to the Government dated July 16, 2008 (with reference to portfolio review), December 15, 2008 (with reference to JSP), undated (with reference to 2008 review of JSP), June 4, 2009 (with reference to 2008 JSP) and undated (with reference to 2009 review of JSP).

Annex 3

Chile at a glance

Key Development Indicators	Chile	Latin America & Carib.	Upper middle income	
<i>(2009)</i>				
Population, mid-year (millions)	17.0	566	993	
Surface area (thousand sq. km)	756	20,422	48,659	
Population growth (%)	1.0	1.1	0.9	
Urban population (% of total population)	89	79	75	
GNI (Atlas method, US\$ billions)	160.6	3,865	7,352	
GNI per capita (Atlas method, US\$)	9,470	6,826	7,405	
GNI per capita (PPP, international \$)	13,430	10,496	12,763	
GDP growth (%)	-1.5	4.3	4.1	
GDP per capita growth (%)	-2.5	3.1	3.2	
<i>(most recent estimate, 2003–2009)</i>				
Poverty headcount ratio at \$1.25 a day (PPP, %)	<2	8	..	
Poverty headcount ratio at \$2.00 a day (PPP, %)	2	17	..	
Life expectancy at birth (years)	79	73	71	
Infant mortality (per 1,000 live births)	7	20	20	
Child malnutrition (% of children under 5)	1	4	..	
Adult literacy, male (% of ages 15 and older)	99	92	95	
Adult literacy, female (% of ages 15 and older)	99	90	92	
Gross primary enrollment, male (% of age group)	108	118	111	
Gross primary enrollment, female (% of age group)	103	114	110	
Access to an improved water source (% of population)	96	93	95	
Access to improved sanitation facilities (% of population)	96	79	84	
Net Aid Flows				
	1980	1990	2000	2009^a
<i>(US\$ millions)</i>				
Net ODA and official aid	-11	104	49	73
<i>Top 3 donors (in 2008):</i>				
Germany	-6	20	22	20
France	-5	6	9	9
Spain	0	6	-2	7
Aid (% of GNI)	0.0	0.3	0.1	0.0
Aid per capita (US\$)	-1	8	3	4
Long-Term Economic Trends				
Consumer prices (annual % change)	35.1	40.9	4.5	-1.4
GDP implicit deflator (annual % change)	28.8	22.3	4.6	4.2
Exchange rate (annual average, local per US\$)	39.0	304.9	539.5	559.6
Terms of trade index (2000 = 100)	..	..	100	172
Population, mid-year (millions)	11.2	13.2	15.4	17.0
GDP (US\$ millions)	27,572	31,982	75,404	163,669
	<i>(% of GDP)</i>			
Agriculture	7.3	8.7	5.9	3.3
Industry	37.4	41.5	37.0	42.1
Manufacturing	21.5	19.6	18.7	12.7
Services	55.3	49.8	57.1	54.6
Household final consumption expenditure	70.7	63.4	64.5	59.8
General gov't final consumption expenditure	12.5	9.9	12.2	13.4
Gross capital formation	21.0	23.4	21.4	19.0
Exports of goods and services	22.8	33.5	31.5	38.1
Imports of goods and services	27.0	30.1	29.7	30.4
Gross savings	13.5	22.0	19.9	21.6



1980–90 1990–2000 2000–09
(average annual growth %)

1.7 1.6 1.1
8.1 6.6 4.1

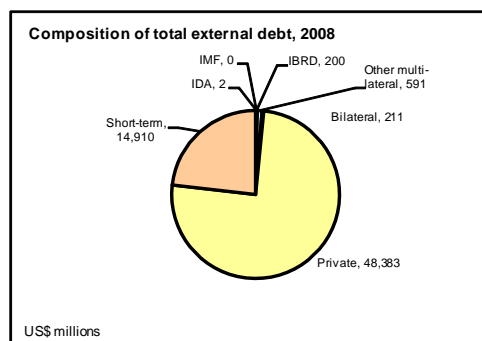
Balance of Payments and Trade	2000	2009
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	19,210	53,736
Total merchandise imports (cif)	18,466	42,428
Net trade in goods and services	1,400	12,907
Current account balance	-897	4,218
as a % of GDP	-1.2	2.6
Workers' remittances and compensation of employees (receipts)	13	4
Reserves, including gold	15,110	25,371

Central Government Finance

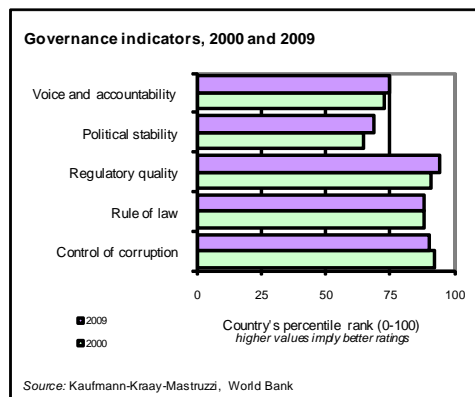
<i>(% of GDP)</i>		
Current revenue (including grants)	21.3	20.1
Tax revenue	16.3	14.6
Current expenditure	18.6	19.8
Overall surplus/deficit	-0.7	-4.4
Highest marginal tax rate (%)		
Individual	..	40
Corporate	15	17

External Debt and Resource Flows

<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	37,261	71,646
Total debt service	6,173	15,283
Debt relief (HIPC, MDR)	-	-
Total debt (% of GDP)	49.4	43.8
Total debt service (% of exports)	24.6	20.1
Foreign direct investment (net inflows)	4,860	12,702
Portfolio equity (net inflows)	-427	316



Private Sector Development	2000	2009
Time required to start a business (days)	-	27
Cost to start a business (% of GNI per capita)	-	6.9
Time required to register property (days)	-	31
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2009
Access to/cost of financing	..	27.1
Labor regulations	..	25.4
Stock market capitalization (% of GDP)	80.1	128.0
Bank capital to asset ratio (%)	7.5	6.9



Technology and Infrastructure	2000	2008
Paved roads (% of total)	18.4	..
Fixed line and mobile phone subscribers (per 100 people)	43	109
High technology exports (% of manufactured exports)	3.4	6.2

Environment

Agricultural land (% of land area)	20	21
Forest area (% of land area)	21.3	21.8
Terrestrial protected areas (% of surface area)	..	18.8
Freshwater resources per capita (cu. meters)	56,020	52,607
Freshwater withdrawal (billion cubic meters)	12.6	..
CO2 emissions per capita (mt)	3.9	4.3
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	6.2	7.0
Energy use per capita (kg of oil equivalent)	1,700	1,851

World Bank Group portfolio	2000	2009
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	808	215
Disbursements	48	29
Principal repayments	115	14
Interest payments	70	6
IDA		
Total debt outstanding and disbursed	7	1
Disbursements	0	0
Total debt service	1	1
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	139	559
Disbursements for IFC own account	5	149
Portfolio sales, prepayments and repayments for IFC own account	37	13
MIGA		
Gross exposure	57	10
New guarantees	0	0

Note: Figures in italics are for years other than those specified. 2009 data are preliminary.
.. indicates data are not available. - indicates observation is not applicable.

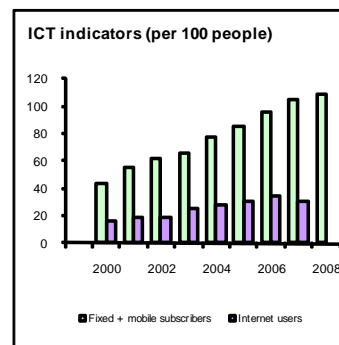
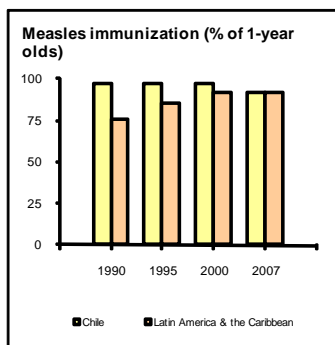
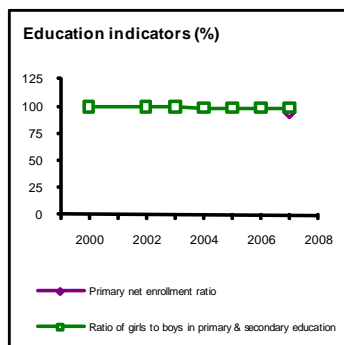
Development Economics, Development Data Group (DECDG).

Millennium Development Goals

Chile

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Chile			
	1990	1995	2000	2008
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	4.4	<2	<2	<2
Poverty headcount ratio at national poverty line (% of population)	..	19.9	17.0	..
Share of income or consumption to the poorest quintile (%)	3.4	3.5	3.5	4.1
Prevalence of malnutrition (% of children under 5)	..	..	..	0.5
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	..	..	94
Primary completion rate (% of relevant age group)	..	..	98	95
Secondary school enrollment (gross, %)	78	77	83	91
Youth literacy rate (% of people ages 15-24)	..	..	99	99
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	101	101	100	99
Women employed in the nonagricultural sector (% of nonagricultural employment)	35	35	36	37
Proportion of seats held by women in national parliament (%)	..	8	11	15
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	22	16	11	9
Infant mortality rate (per 1,000 live births)	18	13	9	7
Measles immunization (proportion of one-year olds immunized, %)	97	97	97	92
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	56	40	29	26
Births attended by skilled health staff (% of total)	..	100	100	100
Contraceptive prevalence (% of women ages 15-49)	56	..	..	58
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	0.1	0.2	0.3	0.3
Incidence of tuberculosis (per 100,000 people)	38	27	19	11
Tuberculosis case detection rate (% of total)	120	110	100	130
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	90	92	94	96
Access to improved sanitation facilities (% of population)	84	88	92	96
Forest area (% of total land area)	20.5	20.9	21.3	21.8
Terrestrial protected areas (% of surface area)	..	..	..	18.8
CO2 emissions (metric tons per capita)	2.6	3.0	3.9	4.3
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	6.3	7.0	6.2	7.0
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	6.6	12.6	21.4	21.0
Mobile phone subscribers (per 100 people)	0.1	1.4	22.1	88.1
Internet users (per 100 people)	0.0	0.3	16.6	32.5
Personal computers (per 100 people)	0.9	3.3	9.2	14.1



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

01/11/11

Development Economics, Development Data Group (DECDG).

Annex 4

Chile

Selected Indicators* of Bank Portfolio Performance and Management

As Of Date 11/25/2010

Indicator	2008	2009	2010	2011
Portfolio Assessment				
Number of Projects Under Implementation ^a	9	8	6	5
Average Implementation Period (years) ^b	3.1	3.8	4.2	5.0
Percent of Problem Projects by Number ^{a, c}	11.1	12.5	33.3	20.0
Percent of Problem Projects by Amount ^{a, c}	2.0	2.4	30.8	11.1
Percent of Projects at Risk by Number ^{a, d}	22.2	12.5	33.3	20.0
Percent of Projects at Risk by Amount ^{a, d}	14.5	2.4	30.8	11.1
Disbursement Ratio (%) ^e	17.8	21.4	24.3	22.5
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	46	4
Proj Eval by OED by Amt (US\$ millions)	3,176.4	48.6
% of OED Projects Rated U or HU by Number	8.7	0.0
% of OED Projects Rated U or HU by Amt	9.6	0.0

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 5

Chile Social Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2002-08	Latin America & Carib.	Upper-middle-income
POPULATION					
Total population, mid-year (millions)	12.1	14.4	16.8	566.1	949.3
Growth rate (% annual average for period)	1.6	1.8	1.0	1.2	0.8
Urban population (% of population)	82.6	84.4	88.4	78.6	74.8
Total fertility rate (births per woman)	2.7	2.4	1.9	2.2	2.0
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNI per capita (US\$)	1,420	4,330	9,370	6,768	7,852
Consumer price index (2000=100)	15	68	117	123	121
Food price index (2000=100)	16	83	106	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	55.2	52.0	..	..
Lowest quintile (% of income or consumption)	..	3.5	4.1	..	..
Highest quintile (% of income or consumption)	..	59.4	56.8	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	3.7	3.4	3.5
Education (% of GDP)	3.8	2.7	3.4	3.6	4.6
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	89	94	94	94
Male	..	90	95	93	94
Female	..	88	94	93	93
Access to an improved water source					
<i>(% of population)</i>					
Total	..	92	95	91	94
Urban	..	99	98	97	98
Rural	..	57	72	73	82
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	92	97	92	93	93
DPT	99	94	96	91	92
Child malnutrition (% under 5 years)	..	..	1	4	4
Life expectancy at birth					
<i>(years)</i>					
Total	72	75	79	73	71
Male	69	72	76	70	68
Female	75	78	82	77	75
Mortality					
Infant (per 1,000 live births)	23	13	7	20	19
Under 5 (per 1,000)	27	16	9	23	23
Adult (15-59)					
Male (per 1,000 population)	218	169	129	192	210
Female (per 1,000 population)	120	85	64	104	127
Maternal (modeled, per 100,000 live births)	..	..	16	130	110
Births attended by skilled health staff (%)	..	100	100	90	95

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

World Development Indicators database, World Bank - 23 April 2010.

Annex 6

Chile - Key Economic Indicators

Indicator	Actual				Estimate	
	2004	2005	2006	2007	2008	2009
National accounts (as % of GDP)						
Gross domestic product ^a	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	4.6	4.4	4.0	3.8	3.5	3.3
Industry	39.9	42.0	47.1	47.3	43.9	42.1
Services	55.6	53.5	48.9	48.9	52.6	54.6
Total Consumption	70.8	69.3	64.9	65.5	71.0	73.2
Gross domestic fixed investment	19.3	21.2	19.0	19.8	24.4	21.4
Government investment	2.3	1.8	2.0	2.3	..	..
Private investment	17.0	19.3	17.1	17.4	..	..
Exports (GNFS) ^b	40.8	41.3	45.8	47.2	44.8	38.1
Imports (GNFS)	31.6	32.8	30.7	33.2	40.9	30.4
Gross domestic savings	29.2	30.7	35.1	34.5	29.0	26.8
Gross national savings ^c	22.2	23.4	24.9	25.1	23.2	21.6
<i>Memorandum items</i>						
Gross domestic product (US\$ million at current prices)	95,653	118,250	146,773	164,315	170,850	163,669
GNI per capita (US\$, Atlas method)	4,970	5,940	6,890	8,160	9,400	9,380
Real annual growth rates (% , calculated from 03 prices)						
Gross domestic product at market prices	6.0	5.6	4.6	4.6	3.7	-1.5
Gross Domestic Income	14.2	9.8	16.3	6.0	-5.1	-0.2
Real annual per capita growth rates (% , calculated from 03 prices)						
Gross domestic product at market prices	4.9	4.4	3.5	3.6	2.7	-2.5
Total consumption	5.9	6.0	5.9	5.9	2.9	0.8
Private consumption	6.1	6.2	6.0	5.9	3.6	-0.1
Balance of Payments (US\$ millions)						
Exports (GNFS) ^b	38,554	48,401	66,511	76,934	77,249	62,242
Merchandise FOB	32,520	41,267	58,680	67,972	66,464	53,735
Imports (GNFS) ^b	29,715	38,248	44,362	53,980	69,273	49,335
Merchandise FOB	22,935	30,492	35,900	44,031	57,617	39,754
Resource balance	8,839	10,153	22,149	22,953	7,976	12,907
Net current transfers	1,072	1,783	3,406	3,123	2,924	1,616
Current account balance	2,074	1,449	7,154	7,488	-3,653	4,218
Net private foreign direct investment	5,610	4,801	5,127	9,961	7,194	4,719
Long-term loans (net)	13,547	15,836	24,390	21,520	29,811	29,654
Official	-105	-196	51	6	-129	..
Private	13,652	16,032	24,339	21,514	29,940	..
Other capital (net, incl. errors & omissions)	-21,422	-20,370	-34,674	-42,183	-26,907	-36,943
Change in reserves ^d	191	-1,716	-1,997	3,214	-6,444	-1,648
<i>Memorandum items</i>						
Resource balance (% of GDP)	9.2	8.6	15.1	14.0	4.7	7.9
Real annual growth rates (YR03 prices)						
Merchandise exports (FOB)	14.9	4.7	2.2	6.9	-0.5	-4.6
Primary	74.4	32.6	54.7	16.9	-9.0	-18.4
Manufactures	15.0	10.7	5.1	5.3	2.8	-10.0
Merchandise imports (CIF)	20.0	21.3	11.5	17.5	15.0	-17.9

**Chile - Key Economic Indicators
(Continued)**

Indicator	Actual				Estimate	Projected
	2004	2005	2006	2007	2008	2009
Public finance (as % of GDP at market prices)^e						
Current revenues	22.1	23.9	25.9	27.0	25.7	20.1
Current expenditures	16.8	16.1	15.1	15.4	17.1	19.8
Current account surplus (+) or deficit (-)	5.3	7.8	10.8	11.7	8.6	0.3
Capital expenditure	5.3	7.7	10.7	11.6	8.6	0.3
Monetary indicators						
M2/GDP	72.4	69.9	66.3	68.5	77.5	75.7
Growth of M2 (%)	8.2	9.6	11.5	14.1	17.6	0.2
Private sector credit growth / total credit growth (%)	119.3	138.1	209.4	111.4	188.9	-236.1
Price indices(YR03 =100)						
Merchandise export price index	149.8	181.6	252.6	273.7	268.8	227.8
Merchandise import price index	164.9	179.5	188.8	197.4	225.3	188.0
Merchandise terms of trade index	90.9	101.2	133.7	138.7	119.3	121.2
Real exchange rate (US\$/LCU) ^f	86.9	91.9	96.7	95.2	97.3	95.2
Real interest rates						
Consumer price index (% change)	2.4	3.7	2.6	7.8	7.1	-1.4
GDP deflator (% change)	7.5	7.6	12.4	5.5	0.3	4.2

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Annex 7

Chile - Key Exposure Indicators

Indicator	Actual			Estimated			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total debt outstanding and disbursed (TDO) (US\$m) ^a	45,446	48,052	56,443	64,297	71,646	58,105	52,579	46,135	40,501
Net disbursements (US\$m) ^a	2979	347	3830	0	0	0	0	0	0
Total debt service (TDS) (US\$m) ^a	7,688	13,793	11,552	2,023	1,672	1,676	1,467	1,337	1,004
Debt and debt service indicators (%)									
TDO/XGS ^b	84.7	63.4	62.2	71.1	94.2	..	..	..	..
TDO/GDP	38.4	32.7	34.4	37.6	43.8	..	..	..	..
TDS/XGS	14.3	18.2	12.7	2.2	2.2	..	..	..	..
Concessional/TDO	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.3	0.3
IBRD exposure indicators (%)									
IBRD DS/public DS	..	..	..	..	..	..	..	..	..
Preferred creditor DS/public DS (%) ^c	..	..	..	..	..	..	..	..	..
IBRD DS/XGS	0.4	0.0	0.0	0.2	0.0	..	..	..	#DIV/0!
IBRD TDO (US\$m) ^d	289	346	354	200	215	170	121	115	108
Of which present value of guarantees (US\$m)									
Share of IBRD portfolio (%)	0.2	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1
IDA TDO (US\$m) ^d	3.8	3.1	2.4	1.7	1.0	0.6	0.0	0.0	0.0
IFC (US\$m)									
Loans									
Equity and quasi-equity /c									
MIGA									
MIGA guarantees (US\$m)									

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex 8

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 11/25/2010

Closed Projects 70

IBRD/IDA *

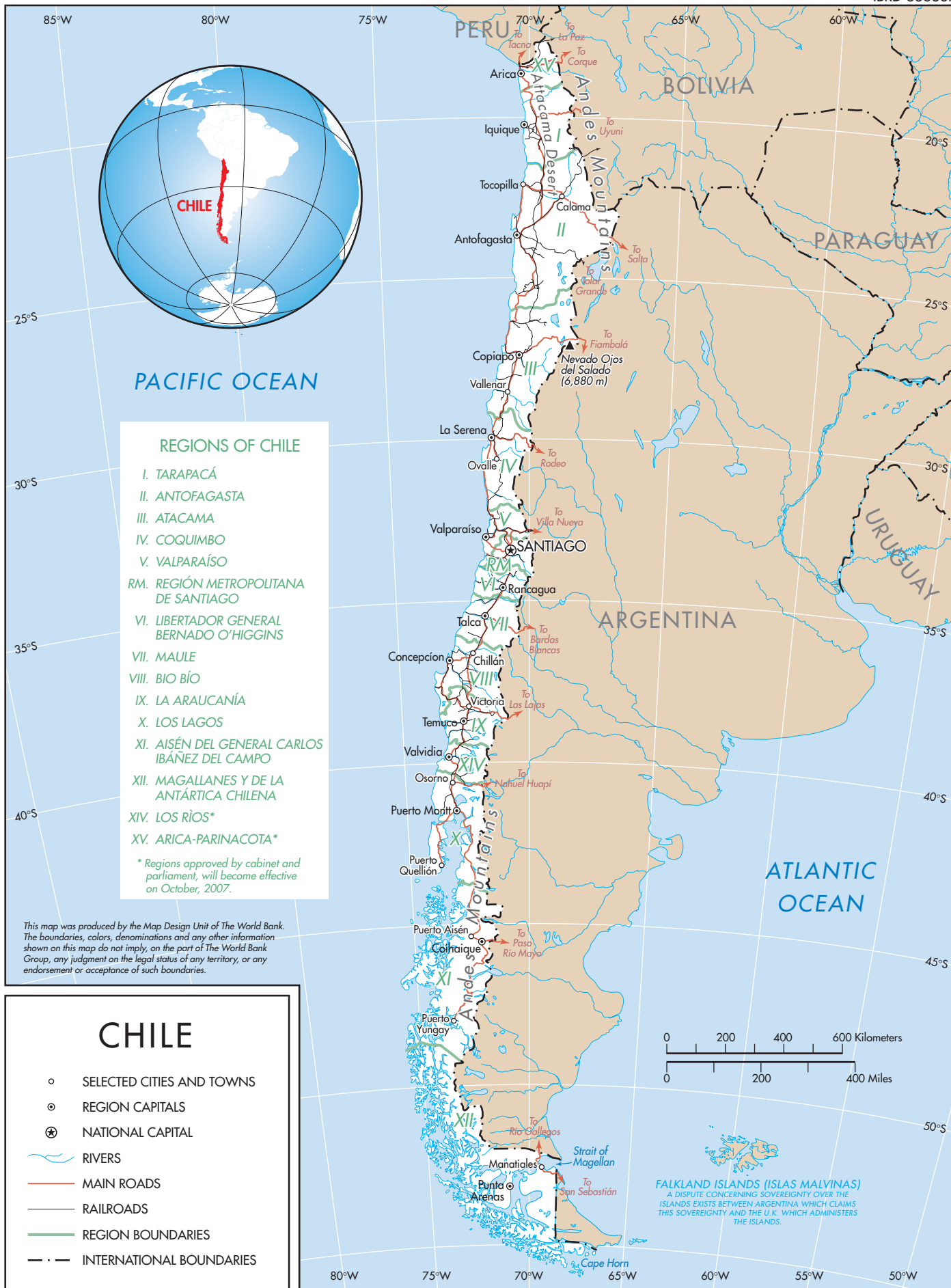
Total Disbursed (Active)	74.66
of which has been repaid	9.67
Total Disbursed (Closed)	479.92
of which has been repaid	1,036.97
Total Disbursed (Active + Closed)	554.58
of which has been repaid	1,046.64
Total Undisbursed (Active)	30.61
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	30.61

Active Projects

Project ID	Project Name	<u>Last PSR</u>		Fiscal Year	<u>Original Amount in US\$ Millions</u>				<u>Difference Between Expected and Actual Disbursements^{a/}</u>			
		Supervision Rating			IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm	Rev'd
		<u>Development Objectives</u>	<u>Implementation Progress</u>									
P103441	CL Public Expenditure Man&S		S	2008	24.8				6.283289	0.5099559		
P076807	CL-Infrastructure for Territor S		S	2005	50.26				7.549276	7.5492762	-4.89413	
P086689	CL-Santiago Urban Transpc MS		MS	2006	4.8				3.310638	3.3106379	1.289305	
P082037	CL-Social Protection TA Lo&S		MS	2004	13.71				2.9925	-0.0075		
P102931	CL-TAL Min of Public Work& MU		MU	2007	11.7				10.47645	9.3097856	9.443119	
Overall Result					105.27				30.61216	20.672156	5.838295	

Annex 9

International Finance Corporation - CHILE															
Statement of IFC's Committed and Outstanding Portfolio															
<i>Amounts in US Dollar Millions as of December 31, 2010</i>															
Commitment	Institution	LN	ET	QL + QE	GT	RM	ALL	ALL	LN	ET	QL + QE	GT	RM	ALL	ALL
Fiscal Year	Short Name	Cmtd - IFC	Cmtd - IFC	Cmtd - IFC	Cmtd - IFC	Cmtd - IFC	Cmtd - IFC	Cmtd - Part	Out - IFC	Out - IFC	Out - IFC	Out - IFC	Out - IFC	Out - IFC	Out - Part
2010/ 2011	Bc Internacional	-	-	-	47.3	-	47.3	-	-	-	-	47.3	-	47.3	-
2009/ 2010	CTA	100.0	-	-	-	-	100.0	225.0	73.5	-	-	-	-	73.5	165.3
	Chilempack	-	-	-	-	0.2	0.2	-	-	-	-	-	0.1	0.1	-
2007/ 2010	Duoc	29.3	-	-	21.5	-	50.8	-	7.8	-	-	2.8	-	10.6	-
2005/ 2008/ 2009/ 2011	Factorline	15.0	13.8	-	-	-	28.8	-	15.0	13.7	-	-	-	28.7	-
2007/ 2009	Hidromaule	5.3	-	3.5	-	-	8.8	9.8	5.3	-	3.5	-	-	8.8	9.8
2006	La Higuera	31.8	-	10.0	-	-	41.8	102.1	31.8	-	10.0	-	-	41.8	102.1
2008	La Confluencia	83.0	-	-	-	-	83.0	125.0	83.0	-	-	-	-	83.0	125.0
2006	Lignum	-	2.7	-	-	-	2.7	-	-	2.7	-	-	-	2.7	-
2009	Norvind	29.9	-	-	-	-	29.9	29.9	29.9	-	-	-	-	29.9	29.9
2005	Proa II	-	1.6	-	-	-	1.6	-	-	0.2	-	-	-	0.2	-
2004	San Vicente	3.8	-	-	-	-	3.8	-	3.8	-	-	-	-	3.8	-
	TFSA	-	1.6	-	-	-	1.6	-	-	1.6	-	-	-	1.6	-
2003	U.Diego Portales	-	-	-	1.6	-	1.6	-	-	-	-	1.5	-	1.5	-
Total Portfolio		298.0	19.6	13.5	70.4	0.2	401.6	491.7	250.0	18.2	13.5	51.6	0.1	333.4	432.0



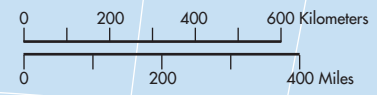
PACIFIC OCEAN

- REGIONS OF CHILE**
- I. TARAPACÁ
 - II. ANTOFAGASTA
 - III. ATACAMA
 - IV. COQUIMBO
 - V. VALPARAÍSO
 - RM. REGIÓN METROPOLITANA DE SANTIAGO
 - VI. LIBERTADOR GENERAL BERNARDO O'HIGGINS
 - VII. MAULE
 - VIII. BIO BÍO
 - IX. LA ARAUCANÍA
 - X. LOS LAGOS
 - XI. AISÉN DEL GENERAL CARLOS IBÁÑEZ DEL CAMPO
 - XII. MAGALLANES Y DE LA ANTÁRTICA CHILENA
 - XIV. LOS RÍOS*
 - XV. ARICA-PARINACOTA*
- * Regions approved by cabinet and parliament, will become effective on October, 2007.

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CHILE

- SELECTED CITIES AND TOWNS
- ⊙ REGION CAPITALS
- ⊗ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- REGION BOUNDARIES
- INTERNATIONAL BOUNDARIES



FALKLAND ISLANDS (ISLAS MALVINAS)
A DISPUTE CONCERNING SOVEREIGNTY OVER THE ISLANDS EXISTS BETWEEN ARGENTINA WHICH CLAIMS THIS SOVEREIGNTY AND THE U.K. WHICH ADMINISTERS THE ISLANDS.