

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CHILE

DIGITAL TRANSFORMATION AND SUSTAINABLE GROWTH PROGRAM

(CH-L1164 AND CH-L1166)

LOAN PROPOSAL

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ABBREVIATIONS

4G	Fourth generation broadband cellular network technology standard
5G	Fifth generation broadband cellular network technology standard
BNE	Bolsa Nacional de Empleo [National Employment Service]
CAIGG	Consejo de Auditoría Interna General de Gobierno [Government General Internal Audit Board]
CCIL	Comité de Coordinación de Intermediación Laboral [Steering Committee on Labor Intermediation]
CGR	Contraloría General de la República [Office of the Comptroller General of the Republic]
COCHILCO	Comisión Chilena de Cobre [Chilean Copper Commission]
CORFO	Corporación de Fomento de la Producción [Chilean Economic Development Agency]
CNP	Comisión Nacional de Productividad [National Productivity Commission]
COVID-19	Coronavirus disease caused by the SARS-CoV-2 virus, first detected in 2019
DIPRES	Budget Directorate
FOGAPE	Fondo de Garantía para Pequeños Empresarios [Small Business Guarantee Fund]
GDP	Gross domestic product
IDBA	Índice de Desarrollo de Banda Ancha [Broadband Development Index]
ILO	International Labour Organization
IMF	International Monetary Fund
INE	Instituto Nacional de Estadísticas [National Statistics Institute]
LBR	Loan based on results
LIBOR	London Interbank Offered Rate
LPE	Ley de Protección al Empleo [Employment Protection Act]
LTDE	Ley de Transformación Digital del Estado [Government Digital Transformation Act]
MINCIENCIA	Ministry of Science, Technology, Knowledge, and Innovation
MINECON	Ministry of Economy, Development, and Tourism
MMA	Ministry of the Environment
MSMEs	Micro, small, and medium-sized enterprises
MTPS	Ministry of Labor and Social Welfare
OECD	Organisation for Economic Co-operation and Development
OMIL	Oficina Municipal de Información Laboral [Municipal Employment Information Office]
ICAP	Institutional Capacity Assessment Platform
PBP	Programmatic policy-based loan
PNM	Política Nacional Minera [National Mining Policy]
SAFP	Sistema de Administración Financiera Pública [Public Financial Administration System]
SENCE	Servicio Nacional de Capacitación y Empleo [National Training and Employment Service]

SIGFE	Sistema de Información de la Gestión Financiera del Estado [Government Financial Management Information System]
SII	Servicio de Impuestos Internos [Internal Revenue Service]
SINADER	Sistema Nacional de Declaración de Residuos [National Waste Reporting System]
SOFR	Secured Overnight Financing Rate
SUBDERE	Subsecretaría de Desarrollo Regional y Administrativo [Office of the Deputy Secretary for Regional and Administrative Development]
SUBTEL	Subsecretaría de Telecomunicaciones [Office of the Deputy Secretary for Telecommunications]
TGR	Tesorería General de la República [Treasury of the Republic]
UCP	Unidad de Crédito Público [Public Credit Unit]
WEF	World Economic Forum

PROJECT SUMMARY

CHILE DIGITAL TRANSFORMATION AND SUSTAINABLE GROWTH PROGRAM (CH-L1164 and CH-L1166)

Financial Terms and Conditions				
Borrower			Flexible Financing Facility ^(a)	
Republic of Chile			Amortization period: PBP CH-L1164 LBR CH-L1166	15.5 years 20 years
Executing agency			Disbursement period:	2 years
Republic of Chile, through the Budget Directorate (DIPRES) of the Ministry of Finance			Grace period: PBP CH-L1164 LBR CH-L1166	5.5 years ^(b) 8 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based ^(c)
IDB programmatic policy-based loan (Ordinary Capital – CH-L1164):	100,000,000	25	Credit fee:	(d)
			Inspection and supervision fee:	(d)
IDB loan based on results (Ordinary Capital – CH-L1166):	300,000,000	75	Weighted average life: PBP CH-L1164 LBR CH-L1166	10.5 years 14 years
Total:	400,000,000	100	Approval currency:	United States dollar
Project at a Glance				
<p>Project objective/description: The general objective of the program is to drive gains in Chile's competitiveness in a way that promotes sustainable and inclusive growth. The specific objectives are: (i) to accelerate the digital transformation of public services and digital connectivity; (ii) to promote the transition toward circular production and consumption models; and (iii) to promote the recovery and formalization of jobs by supporting micro and small enterprises (MSEs) and incentivizing hiring and labor intermediation, with a particular emphasis on women.</p> <p>The programmatic policy-based loan (PBP) is structured as two individual operations that are technically linked but financially independent, in accordance with the guidelines for preparation and implementation of policy-based loans (document CS-3633-2).</p>				
<p>Special contractual conditions precedent to the first and sole disbursement of the PBP: The disbursement of proceeds will be subject to fulfillment of the policy reform conditions established in the Policy Matrix (Annex II), the Policy Letter, and the conditions established in the corresponding Loan Contract (paragraph 3.2).</p>				
<p>Special contractual conditions precedent to the first disbursement of the LBR: Evidence of the following will be presented: (i) appointment of the program coordination unit (PCU); (ii) appointment or hiring, as applicable, of the coordinator and at least one fiduciary technical/operational specialist in the PCU; (iii) approval and entry into force of the Program Operating Regulations under the terms previously agreed upon with the Bank; and (iv) the contracting of a consulting firm or an independent consultant responsible for external verification of results, in accordance with the terms of reference, previously agreed upon with the Bank (paragraph 3.10).</p>				
<p>Exceptions to Bank policies: None.</p>				

Strategic Alignment			
Challenges: ^(e)	SI <input checked="" type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>
Crosscutting themes: ^(f)	GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/> and ES <input checked="" type="checkbox"/>	IC <input checked="" type="checkbox"/>

- ^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.
- ^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.
- ^(c) In keeping with document FN-729 (Strategy and Operational Readiness for the Execution of the LIBOR Transition for the IDB Balance Sheet) and document CF-257-1 (Base Rate Replacement for Sovereign Guaranteed LIBOR-based Loans), this loan will be subject to the SOFR-based interest rate, upon notification to the borrower by the Bank, pursuant to the provisions of the loan contract.
- ^(d) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with applicable policies.
- ^(e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- ^(f) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic conditions.** In 2018, Chile's annual per capita income of US\$25,283, adjusted for purchasing power parity, was one of the highest in Latin America and the Caribbean. However, since end-2019, the economy has been affected by a social crisis and the COVID-19 pandemic. Consequently, gross domestic product (GDP) grew 1.1% in 2019 and dropped 5.8% in 2020.¹ To address these two crises, the Chilean government ramped up public spending, driving the effective fiscal deficit up to 7.3% of GDP in 2020. For 2021, GDP growth of 8.3% is forecast,² boosted by household support expenditures, which the International Monetary Fund (IMF) estimates will generate GDP growth of 11% in 2021 and 2.5% in 2022. The 2022 deficit is estimated at 2.8%, which will push gross central government debt up to 39.6% of GDP in 2024,³ from 27% prior to the social crisis.⁴ Against this backdrop, boosting the economy's competitiveness is one of the mainstays of efforts to resume a path of sustainable and inclusive growth.
- 1.2 **Chile's weak competitiveness and its causes.** The country's competitiveness is a long way behind that of the most advanced economies, and the gap has widened in recent years⁵ due to a series of interrelated factors:⁶ (i) limited digitalization of the Chilean economy's public and private ecosystem;⁷ (ii) linear production and consumption models, based on a logic of extraction, production, and disposal, with its negative impact on the environment;⁸ and (iii) the limited ability of micro and small enterprises (MSEs) and workers to rebound from the disruptions of the pandemic, with significant structural gender gaps in the labor market.⁹
- 1.3 **Two major trends: digital transformation and the circular economy.** Two major global trends are affecting the country's competitiveness and options for sustainable growth: (i) digitalization of the economy (in the early stages of the

¹ Central Bank of Chile (2021a).

² DIPRES (2021a).

³ DIPRES (2021a).

⁴ Ministry of Finance (2019).

⁵ The 2020 Global Competitiveness Report gave Chile 53/100 points (decile 7 of the whole group of countries analyzed) in terms of its readiness for economic transformation.

⁶ According to IDB Invest, competitiveness gaps include factors such as the ability to innovate, gender parity, education, environmental performance, export competitiveness, telecommunications, and financial inclusion of small and medium-sized enterprises (SMEs).

⁷ In Latin America and the Caribbean, a 10% increase in broadband penetration would add 3.19% to GDP, 2.61% to productivity, and over 67,000 direct jobs. Moreover, at the start of the pandemic, access to broadband services prevented the loss of 25% of GDP. García-Zaballos and López-Rivas (2012). García-Zaballos et al. (2021).

⁸ The circular economy, on the other hand, encourages products and business models that minimize resource extraction and avoid waste generation and pollution (Fundación Ellen MacArthur, 2021).

⁹ The pandemic worsened the situation of micro, small, and medium-sized enterprises (MSMEs), which were already facing liquidity issues and difficulties accessing credit (Herrera, 2020). In Chile, MSMEs account for 65.3% of formal employment (INE, 2021), making MSME-support measures necessary to safeguard employment, which dropped 22% between February and June 2020, affecting women particularly, and employment has not yet recovered (IDB, 2021).

pandemic, thanks to access to broadband services, the loss of 25% of GDP was avoided);^{10,11} and (ii) the transition toward circular models of production and consumption. The circular economy has the potential to create over 10 million jobs¹² in Latin America and the Caribbean. Additionally, a more circular model of production and consumption can help reduce carbon emissions. Consequently, both the digital transformation and the promotion of the circular economy entail changes in work and production patterns.

- 1.4 Limited digitalization of the Chilean economy's public and private ecosystem.** One of the necessary conditions for the countries of the region to reach levels of competitiveness comparable with those of developed countries is to achieve more thoroughgoing digital transformation.¹³ Despite public and private efforts to accelerate digitalization, the country's digital transformation is still a long way behind that of more advanced economies, as the broadband development index (IDBA) 2020 shows, ranking Chile in 33rd position out of the 65 countries analyzed.¹⁴ Specific examples include: (i) 25% of businesses do not use digital technologies as a means of innovation to boost productivity;¹⁵ (ii) small and medium-sized enterprises (SMEs) take up to 18 months to complete the formalities necessary to start business¹⁶ and 74% of this delay is estimated to be due to shortcomings in digitalization;¹⁷ (iii) 49.6% of formalities can be started and completed online, compared with an average of 81% in European Union countries;¹⁸ and (iv) the level of satisfaction with transactional services is low (scoring 4.7 out of 10).¹⁹
- 1.5 The main factors underlying limited digitalization are:** (i) insufficient digital connectivity infrastructure resulting from underinvestment (88% of the population has fourth-generation (4G) broadband coverage compared with an Organisation for Economic Co-operation and Development (OECD) average of 98%; there are 17.36 fixed broadband lines and 96.11 mobile broadband connections per 100 inhabitants, compared with OECD averages of 33.74 and 121.07, respectively);²⁰ lack of submarine cables to Asia²¹ and other continents;²² (ii) an inadequate and out-of-date legal framework in the case of both regulation of

¹⁰ García-Zaballos and López-Rivas (2012).

¹¹ García-Zaballos et al. (2020).

¹² International Labour Organization (ILO) (2018).

¹³ García-Zaballos and López-Rivas (2012). García-Zaballos et al. (2020).

¹⁴ García-Zaballos et al. (2021).

¹⁵ Cabal-Bolaños (2019).

¹⁶ National Productivity Commission (CNP) (2021).

¹⁷ Roseth et al. (2018).

¹⁸ During the pandemic, 25% of people who attempted to complete formalities were unable to. Roseth et al. (2021).

¹⁹ Pareja (2020).

²⁰ García-Zaballos et al. (2021).

²¹ Asia accounts for 37% of imports and 58% of exports. Central Bank of Chile (2021b).

²² All the submarine cables connecting Asia to the Americas land in the United States, which receives 47% of Chile's international capacity, with an impact on service costs and quality. Telegeography (2021).

fifth-generation (5G) digital connectivity²³ and laws and regulations on the digitalization of administrative procedures and public agencies;²⁴ and (iii) inequalities in the adoption of digital technologies due not only to their relative unaffordability for low-income populations (the price of a monthly mobile broadband subscription is 4.06% of the poorest 40% of the population's income and that of a fixed broadband connection is 7.48%, compared with OECD averages of 2.17% and 2.38%, respectively),²⁵ but also the gender gap, which reveals the lesser familiarity with digital technologies among women and girls. Gender stereotypes deter preteen and adolescent girls from entering the digital world, distorting their perceptions of their abilities in math and shaping their career choices, which has a direct impact on subsequent career paths.²⁶ On reaching adulthood, the digital divide is visible on indicators such as Internet use (80.7% of women use the Internet compared with 84% of men, a gap that is 50% wider than the OECD average),²⁷ career choice (with only 28% of students enrolled in engineering and science courses being women),²⁸ and academic careers (women hold only 29% of associate professor posts and 22% of full professorships).²⁹

- 1.6 **Linear production models based on a logic of extraction, production, and disposal, negatively impacting the environment.** The Chilean economy is characterized by a linear logic of extraction, production, and disposal, with negative impacts for competitiveness and the environment that limit its scope for sustainable growth. Chile has the OECD's lowest material productivity,³⁰ estimated at US\$0.56 per kilogram of material used (compared with US\$2.88 in the OECD as a whole and US\$5.75 in the Netherlands).³¹ The linearity of the Chilean economy is also reflected in the indicators associated with solid waste management. In 2018, the national recycling rate for municipal solid waste was less than 2%³² (compared with 46% in the European Union in 2016).³³ This linear model is increasingly limited in a global context in which sustainable practices are valued and promoted. In markets such as the European Union, demand is growing for goods produced by companies applying circular models in order to reduce their environmental

²³ Until mid-2021, no radio frequency spectrum bands had been allocated for 5G.

²⁴ This situation has led to the "widespread presence of procedures that are still carried out on paper and often also require personal presence" (BCN, 2019). By the same token, there are no regulations ensuring the continuity and sustainability over time of digital government efforts made (OECD, 2019a).

²⁵ García-Zaballos et al. (2021).

²⁶ OECD (2019b), Bustelo et al. (2019), United Nations Educational, Scientific and Cultural Organization (UNESCO) (2019).

²⁷ Telecommunication Development Sector of the International Telecommunication Union (ITU-D) (2019).

²⁸ Ministry of Science, Technology, Knowledge, and Innovation (MINCIENCIA) (2021). According to 2017 data, the gap between men and women graduating in these subjects is wider in Chile than the OECD average, and wider than in Colombia, Peru, and Costa Rica (OECD, 2021).

²⁹ MINCIENCIA (2021). Public officials' level of training can be a risk factor in the implementation of digital technologies, including those technologies for which implementation will be mandatory under the Government Digital Transformation Act (Law 21,180).

³⁰ Value the economy generates from each kilogram used.

³¹ Roadmap for a Circular Chile 2040. Ministry of the Environment (MMA) (2021). This indicator reports the use of resources and is calculated as the ratio of GDP (in US\$) to domestic material consumption.

³² Ibid.

³³ Ibid.

footprint. This shift in demand is also being accompanied by regulatory changes and international trade standards.³⁴

- 1.7 **The factors underlying the linear production model are:** (i) a regulatory and policy framework that does not incentivize the reincorporation of materials (reuse, remanufacturing, and recycling) into the production cycle—legislation on solid waste management in Chile is recent (Law 20,920 of 2016). This law established the Recycling Fund, which was created in 2017 to finance projects by municipal governments, either individually or in associations, aiming to prevent the generation of wastes in their areas and encourage separation, reuse, and recycling. Between 2018 and 2019, the Fund financed agreements in 36 municipios (of the 345 municipios in the country);³⁵ (ii) insufficient infrastructure to facilitate recycling and recovery of solid waste. Chile has set ambitious recycling targets for household packaging waste, set at 45% (by 2030) in the case of plastic packaging and containers. According to data from the Office of the Deputy Secretary for Regional and Administrative Development (SUBDERE),³⁶ only 13% to 15% of municipios have a recycling program and almost none have selective collection programs at the household level. Recyclable material is currently collected through 64 “puntos limpios” (collecting clean packaging materials only), 5,294 “puntos verdes” (collecting various waste streams), and 97 collection and storage centers for recyclable materials, which is insufficient to achieve the 45% target; (iii) an inadequate charging system for municipal solid waste management, which stands in the way of internalizing the costs of waste management and fails to generate incentives for waste separation and recycling. Over 75% of Chilean households are estimated not to be paying for municipal solid waste collection, transportation, and disposal services; (iv) the lack of environmental education and a culture of recycling and reuse of solid waste; and (v) slow adoption of environmental practices in major sectors such as mining and construction—the construction industry is a major producer of waste in the form of construction and demolition waste, which accounts for 34% of the total.³⁷ In the case of mining, the challenges are not limited to waste disposal but also include inputs used in mining processes, such as tires³⁸ and machinery.
- 1.8 **The limited ability of micro and small enterprises (MSEs) and workers to rebound from the disruption of the pandemic, with substantial structural gender gaps in the labor market.** As of July 2021, the level of employment was still 11% lower than in February 2020, equivalent to the loss of one million jobs. However, neither job losses nor the recovery have affected genders equally. In July 2021, female employment had dropped 14% from February 2020 (compared with 9% for men). Moreover, much of the improvement seen since the peak of the

³⁴ One example is the requirement that palm oil imported into the European Union be produced sustainably.

³⁵ Recycling Fund (2021).

³⁶ SUBDERE (2019).

³⁷ Between 2001 and 2019, the quantity of construction and demolition waste produced by building construction was equivalent to 20 times the tonnage of Chilean copper production in 2019. MMA-Residuos (2021).

³⁸ Chile’s mining activity produces 27,000 tons of used tires per year (BNAmericas, 2021).

pandemic (May-July 2020) is driven by higher levels of informal employment (over 12 months, informal work grew by 38.3%, while total employment rose by 14.8%).

- 1.9 **The main factors underlying MSEs' and workers' difficulty in rebounding from the disruption of the pandemic are:** (i) the drop in sales and temporary business closures caused by the pandemic: micro, small, and medium-sized enterprises (MSMEs) reported a bigger drop in sales than large companies (between March and June 2020, SMEs lost 25% of their sales compared with 16% among large companies) forcing many SMEs to close owing to lack of liquidity;^{39,40} (ii) over-representation of women in the hardest-hit sectors: 73.8% of women's microenterprises are concentrated in the services and commerce sectors,⁴¹ the hardest hit by the health measures (90% of women's MSEs were affected by the pandemic compared with 70% of those run by men);^{42,43} (iii) domestic chores and the closure of schools and kindergartens led many women to exit the labor market; the health measures taken to avoid virus transmission, in a context of structural gender gaps,⁴⁴ caused a drop in female labor force participation, setting it back by a decade; (iv) limited coverage of the labor intermediation system: despite the incentives for hiring implemented in September 2020,⁴⁵ in July 2021 vacancies listed by the National Employment Service (BNE) were up 15% on the preceding month, whereas the number of applicants dropped by 2.2% over the same period;⁴⁶ (v) inflexibility of the job search and labor intermediation services to adapt to changes in labor demand and the need to retrain male and female workers. Despite improvements since 2017,⁴⁷ Chile does not have a coordinated route to employability to meet the needs of workers affected by the pandemic or medium-term factors such as the digital transformation.⁴⁸ The hiring incentive mechanism needs to be rethought and incentives given to increase the number of applicants, particularly women. In Chile, MSMEs account for 65.3% of formal employment,⁴⁹ such that MSME support mechanisms are a tool for sustaining employment.

1.10 **Chile has been developing an agenda to overcome these challenges:**

- a. Digital transformation: the deployment of digital connectivity infrastructure, the approval of a new Government Digital Transformation Act (LTDE), a recently created digital governance institutional framework, the allocation of frequency

³⁹ 75.6% of microenterprises surveyed considered the biggest risk in 2021 to be lack of liquidity due to the drop in sales. ASECH (2021).

⁴⁰ National Productivity Commission (CNP) (2021).

⁴¹ Ministry of Economy, Development, and Tourism (MINECON) (2020). *Boletín Género y microemprendimiento*.

⁴² Mastercard Index of Women Entrepreneurs (2020).

⁴³ National Training and Employment Service (SENCE) (2021).

⁴⁴ The national time-use survey (ENUT-INE, 2015) found that women spend twice as much time on housework and care activities than do men (6.6 hours/day compared with 3.2 hours/day).

⁴⁵ National Training and Employment Service (SENCE) (2020).

⁴⁶ National Employment Service (BNE) (2021).

⁴⁷ IDB (2021b).

⁴⁸ Ministry of Labor and Social Welfare (MTPS) (2021).

⁴⁹ INE (2021), MINECON (2021).

bands for 5G, development of digital platforms for the public sector, and the promotion of a digital ecosystem are factors positioning Chile for the digital transformation.

- b. Circular economy: creation of a Circular Economy Unit under the Ministry of the Environment (MMA), together with regulatory reforms such as Law 20,920, which defines the waste management framework, extended producer responsibility, and promotes recycling; the crafting of the Chile Circular 2040 roadmap toward the circular economy; promotion of the Recycling Fund to promote recycling at subnational level; and the development of a mining policy with a 2050 horizon demonstrates the priority Chile has given to sustainable growth based on a circular model.
- c. Micro and small enterprises (MSEs) and employment: Chile is working on a short-term response plan to support: (i) MSMEs, with key measures including strengthening the Small Business Guarantee Fund (FOGAPE) by extending guarantee periods from 7 to 10 years, tax reductions, training programs;⁵⁰ and (ii) workers, through measures such as the Employment Protection Act (LPE), which permitted the use of unemployment insurance to pay furloughed workers, and the expansion of hiring subsidies, with actions to target women; these measures have not been sufficient to bring about a recovery in MSEs' liquidity and formal employment.⁵¹ Additionally, Chile has continued implementing medium-term reforms, with a gender perspective, to improve workers' and companies' productivity and the competitiveness of the economy.⁵²

1.11 **IDB experience and lessons learned.** In the digital transformation area, the Bank has been supporting improved connectivity and progress toward completion of the measures proposed in Component II of the PBP through technical cooperation ([ATN/KK-17731-CH](#)).⁵³ Additionally, the Bank has learned important lessons concerning the technical and regulatory specifications informing Component I of the LBR. The Bank's experience derives from the design and implementation of: (i) programs to update public policies and regulations on digital issues in Argentina ([4755/OC-AR](#)), Colombia ([4701/OC-CO](#)), and Paraguay ([4985/OC-PR](#)); (ii) digital infrastructure investment programs in Nicaragua ([3612/BL-NI](#)), Paraguay ([4650/OC-PR](#)), Honduras ([4942/BL-HO](#)), Mexico ([5121/OC-ME](#)), Guatemala ([5231/OC-GU](#)), Dominican Republic ([5297/OC-DR](#)), and El Salvador ([5340/OC-ES](#)); (iii) programs jointly embracing government digitalization, connectivity, and inclusion ([4942/BL-HO](#) and [3683/OC-PN](#)); (iv) the Program to Support the Digital Government Strategy in Uruguay ([4867/OC-UR](#)); and (v) the Public Management and Citizen Services Improvement Program ([3298/OC-CH](#)), which supported the design and implementation of technology tools for the Government Digital Transformation Act (LTDE) in Chile, the implementation of which is supported by measures 3.1.2 to 3.1.4 of the PBP. The program will also benefit from the DigiLAC platform and its

⁵⁰ A total of 30 laws and 50 measures were developed, including tax rebates and breaks for more than 820,000 SMEs affected by the pandemic (DIPRES, 2021b).

⁵¹ MTPS (2021b).

⁵² SENCE (2021) and BNE (2021).

⁵³ This technical cooperation operation for US\$700,000 to improve the interoperability of digital infrastructure, approved in 2019, will provide operational support to the program.

dialogue network,⁵⁴ created as a regional public good ([ATN/OC-17689-RG](#)). The lessons learned from these operations included: (i) recognizing the challenges of interagency coordination to facilitate digitalization; (ii) integrating activities in institutional management processes; and (iii) the importance of an up-to-date regulatory framework to foster public-private investment.

- 1.12 In the case of the circular economy, the Bank has been supporting Chile on: (i) development of circular economy policy proposals for the management of organic waste (measure 5.1.1) and extended producer responsibility (measures 5.1.3 and 5.1.4) ([ATN/OC-18546-RG](#)); (ii) participation in the technical committee contributing to the design of the Chile Circular 2040 roadmap (measure 5.1.5.); (iii) technical support for the Pacific Alliance's Roadmap Toward Sustainable Management of Plastics (measure 5.1.2.); (iv) on the participatory preparation of the 2050 National Mining Policy, supported through technical cooperation operation [ATN/OC-17922-CH](#) (measure 6.1.1.); and (v) calculation of emissions from the mining industry and its supply chain ([ATN/CF-18025-RG](#)), which is an input to measure 6.1.3. of Component III of the PBP. The lessons learned from these operations included the importance of: (i) working to extend policies developed at national level down to the regional/municipal level (Component II of the LBR); (ii) coordination between ministries and levels of government when implementing regulatory changes; and (iii) participatory policy preparation in sectors such as mining, to help ensure priorities are consensus-based and accompanied by specific technical inputs.
- 1.13 As regards support in the MSE and employment area with a gender perspective, the Bank has supported the initial measures to respond to the October 2019 social crisis and the economic crisis resulting from the health measures to address the pandemic ([5059/OC-CH](#); [5302/OC-CH](#)), which was continued through the "IFE Laboral" subsidy for formal employment (measure 8.1.1.); it is also supporting a study measuring the effectiveness of the Employment Protection Act (LPE) at safeguarding formal employment (RG-E1778). Since 2017, the Bank has been working with the Ministry of Labor and Social Welfare (MTPS) and the National Training and Employment Service (SENCE) to strengthen the labor intermediation system ([4098/OC-CH](#); [ATN/OC-16188-CH](#); [ATN/OC-17761-CH](#); [ATN/OC-18060-CH](#)), supporting the creation of the Steering Committee on Labor Intermediation (CCIL), which facilitated the MTPS's response to the pandemic and promoted the coordination of its job search services offering (measure 9.1.1.) and improving the quality of Municipal Employment Information Office (OMIL) services (measure 9.1.2.). This support also includes the gender perspective in job protection and creation measures, as well as in ensuring the continuity of efforts to promote equity through the Gender Parity Initiative, by measuring gender gaps in companies ([ATN/OC-17572-RG](#)) and training for women entrepreneurs ([ATN/OC-18387-CH](#)) that identifies additional barriers to entrepreneurship for women. These lessons learned are reflected in measures 8.1.1. and 9.1.1., which offer an enhanced subsidy for women.
- 1.14 **Summary of reforms.** The program deepens the Chilean government's response to the economic and social challenges of the COVID-19 pandemic, which has laid

⁵⁴ [DigiLAC](#) is an online IDB platform to close connectivity gaps.

bare the inequities deriving from the lack of access to and use of the Internet and the constraints the lack of connectivity imposes on the country's competitiveness. The measures of Component II of the PBP will enable progress on this agenda, emphasizing: (i) strengthening infrastructure and digital connectivity; (ii) strengthening the regulatory and institutional framework for the digital transformation; and (iii) promoting digital inclusion. For its part, the linear model of production and consumption generates economic inefficiencies for companies, limiting their competitiveness and opportunities for growth. This linearity is also reflected in low recycling rates and lost opportunities for the development of a sector that generates jobs. To address these challenges, the program supports measures tracing a medium-term roadmap focusing on: (iv) developing a regulatory and policy framework to speed the transition toward circular production and consumption models; and (v) improving the environmental performance and competitiveness of the mining sector by promoting its transition toward circularity. Lastly, despite the Chilean government's rapid response, which included a package of measures for US\$30 billion, equivalent to 12% of GDP, the scale of the crisis has demanded further improvement and expansion of the package of response measures to support the productive fabric and employment. Consequently, this program includes measures to: (vi) increase MSEs' liquidity, taking a gender perspective; and (vii) promote the recovery of formal employment, also with a gender perspective. The Chilean government has also continued to strengthen its labor intermediation system while responding to the contingency, as the challenges of employability will persist once the pandemic has been overcome. The program therefore supports measures to: (viii) promote employability through improvements in the labor intermediation services offering. Additionally, as indicative measures for the second operation, the Policy Matrix (Annex II) includes a number of actions enabling the policy gaps around the three program pillars to be narrowed.

- 1.15 **Theory of change.** The program's theory of change identifies Chile's low competitiveness as a key problem and prioritizes solutions geared toward resolving three of its causes: slow and uneven digitalization; predominance of the linear production and consumption model; and loss of formal employment, particularly affecting women ([optional link 2](#)). Thus, the program responds both to the priorities of the Bank's [Vision 2025](#), by promoting the digital economy, supporting MSEs, gender equity, and promoting actions to address climate change, as well as the implementation of the [Employment Action Framework with a Gender Perspective](#), by supporting measures and programs that recognize the differential impact of the pandemic on the female labor force. To address these causes, the Bank proposes to combine short and medium-term policy reforms with results-based investments in a single program in a strategic and complementary way. This will be achieved through a combination of two financial instruments: first, a policy-based loan (PBP) (operation CH-L1164), which proposes concrete actions associated with mitigation of the causes identified, and second, a loan based on results (LBR) (operation CH-L1166) translating policy interventions into specific investments to help achieve competitiveness gains. The combination of investment actions (LBR) linked to policy reforms (PBP) strengthens program continuity and sustainability by leveraging technical and operational synergies.

- 1.16 **Complementarity with other operations.** The Program to Strengthen the Strategic Management of Public Security in Chile (4891/OC-CH) complements Component I of the loan based on results (LBR) by helping reduce muggings and improve the capacity to manage crime and cyber incidents; the Program to Support a Fair, Clean, and Sustainable Energy Transition (5278/OC-CH) complements Component II of the LBR, which aims to support Chile in this process; the Program for the Urban Integration of Informal Settlements (5313/OC-CH) complements Component III of the LBR by promoting a reduction in households in informal settlements through economic inclusion.
- 1.17 **Strategic alignment.** This operation is aligned with the second Update to the Institutional Strategy (document AB-3190-2) through the development challenges of: (i) social inclusion and equality, by strengthening digital connectivity infrastructure so as to enable continuity of public services, and digital inclusion in urban and rural areas; (ii) productivity and innovation, through development of a regulatory and policy framework to accelerate the transition toward circular production and consumption models, better labor intermediation systems and reduced incentives for informal employment; and (iii) economic integration, through the deployment of digital infrastructure to improve the connectivity of border crossing points. It is also aligned with the crosscutting themes of: (i) gender equality, by supporting measures and programs to close digital and labor gaps (paragraphs 1.21, 1.23, and 1.26); (ii) institutional capacity and the rule of law, by strengthening the regulatory framework with regulations to foster transparency, integrity, and competition for the digital transformation; (iii) environmental sustainability, by promoting regulations to support the environment and its governance; and (iv) climate change, by reducing greenhouse gas emissions from the waste and mining sector through promotion of the circular economy. According to the [joint methodology of the multilateral development banks for estimating climate financing](#), it is estimated that PBP CH-L1164 contains 24.24% climate finance due to the inclusion of eight actions with climate impact in the Policy Matrix and that LBR CH-L1166 contains 1.7% climate finance through the US\$5,000,000 investment in the circular economy in Component II. These resources contribute to the Bank's climate finance goal of 30% of the volume of annual approvals. The operation is aligned with the Corporate Results Framework (document GN-2727-12) through the following indicators: (i) beneficiaries of employment support initiatives; (ii) micro, small, and medium-sized enterprises financed; (iii) beneficiaries with new access to at least a 4G mobile network; (iv) women beneficiaries of economic empowerment initiatives; and (v) emissions avoided. The operation is also consistent with: (i) the Innovation, Science and Technology Sector Framework Document (GN-2791-8), which envisages the Bank's support to stimulate the digital transformation and leverage the potential of the digital economy; (ii) the Support to SMEs and Financial Access/Supervision Sector Framework Document (GN-2768-7), particularly Dimension 3, regarding the promotion of new digital technologies to enable productivity gains; (iii) the Climate Change Sector Framework Document (GN-2835-8) on the theme of sustainability; (iv) the Labor Sector Framework Document (GN-2741-9), which proposes interventions to accelerate the recovery in jobs; (v) the Gender and Diversity Sector Framework Document (GN-2800-8), by promoting gender equality and empowerment of women and girls; (vi) the Extractive Industries Sector Framework Document (GN-3028-2), which prioritizes institutional strengthening and improving

the socio-environmental sustainability of the mining industry; and the Water and Sanitation Sector Framework Document (GN-2781-8), which highlights the need to increase recycling and reuse of resources. Additionally, the operation is aligned with the strategy on Institutions for Growth and Social Welfare (GN-2587-2), in the area of improving innovation and productivity for growth and social welfare.

- 1.18 The operation is aligned with the IDB Group Country Strategy with Chile 2019-2022 (document GN-2946) through the strategic objectives to: (i) simplify government procedures for the public; (ii) narrow connectivity gaps, raise information and communication technology speeds, and improve affordability; (iii) promote business innovation; and (iv) facilitate access to finance for investment, mainly for underserved segments.

B. Objectives, components, and cost

- 1.19 The general objective of the program is to drive gains in Chile's competitiveness in a way that promotes sustainable and inclusive growth. The specific objectives are: (i) to accelerate the digital transformation of public services and digital connectivity; (ii) to promote the transition toward circular production and consumption models; and (iii) to promote the recovery and formalization of jobs by supporting micro and small enterprises (MSEs) and incentivizing hiring and labor intermediation, with a particular emphasis on women.

1. Policy-based loan (US\$100,000,000)

- 1.20 **Component I: Macroeconomic stability.** This component will focus on the consistency of the macroeconomic environment with achieving the objectives of the program as established in the Policy Matrix and the sector [Policy Letter](#) (measures 1.1.1 and 1.2.1).
- 1.21 **Component II: Digital transformation.** This component aims to accelerate the country's digital connectivity and the digital transformation of public services. The first PBP operation supports the adoption of policies to: (i) strengthen digital connectivity infrastructure by helping increase digital connectivity infrastructure investments and the complementarity between private sector investments through measures such as awarding concessions for the telecommunications intermediation service for the Arica y Parinacota, North, Center North, Center, Center South, and South macrozones (2.1.1), verification of the reception of telecommunications services works for the submarine trunk link and Magallanes terrestrial trunk link (2.1.2), authorization for 5G trials in the mining industry in the Radomiro Tomic mine,⁵⁵ and approval of the internal regulations for operation of the national 5G observatory (2.1.3), allocation of radio frequency bands for 5G; (ii) strengthen the regulatory framework for the digital transformation, contributing to updating the connectivity regulation for 5G and the regulation on digitalization of administrative procedures and public agencies, through (3.1.1), issue of statutory rules for the application of the Government Digital Transformation Act (LTDE) (3.1.2), preparation of the regulations necessary for the entry into force of the

⁵⁵ Consisting of the installation of mobile cameras connected by 5G for the operational and safety monitoring of the mine.

LTDE (3.1.3), holding of public consultations on the implementation of the LTDE and its technical standards (3.1.4), the second edition of the Online Ideathon for Chile STEM Girls; and (iii) promote the adoption of digital technologies, with a gender perspective, by supporting the affordability of the services and familiarization of women and girls with digital technologies⁵⁶ through the second edition of the Online Ideathon for Chile STEM Girls (4.1.1), implementation of the “PYMES en línea” [SMEs online] program (4.1.2), and a framework for monitoring progress on gender equality in science, technology, knowledge, and innovation (4.1.3) (Annex II). The indicative measures for the second PBP operation include: (i) verification of the reception of works under the telecommunications service concessions for the macrozones listed above; (ii) evaluation of the quality of the telecommunications services provided in the submarine trunk and Magallanes terrestrial trunk links; (iii) evaluation of the impact of the 5G program in mining; (iv) awarding of concessions for radio spectrum for 5G; (v) implementation of the “DocDigital” system or an alternative compatible solution in a group of Chilean government institutions; (vi) approval and publication of the regulations necessary for the entry into force of the LTDE; (vii) approval of the technical standards necessary for the implementation of the LTDE; (viii) holding of the third edition of the Online Ideathon for Chile STEM Girls; (ix) conducting an impact analysis of the “PYMES en Línea” [SMEs online] program; and (x) evaluation of the progress on gender equality in science, technology, knowledge, and innovation.

- 1.22 **Component III: Circular economy.** This component aims to facilitate the country's transition toward more circular production and consumption models. The first PBP operation supports the adoption of policies to: (i) increase the recovery of organic solid waste generated at municipal level through the promulgation of the Chile 2040 National Organic Waste Strategy (5.1.1); (ii) increase the sustainable and circular management of plastics with the publication of the Pacific Alliance's roadmap for sustainable plastics management (5.1.2) and the enactment and publication of the law limiting the supply of single-use plastic products in food outlets so as to foster the reuse and environmental certification of single-use plastics and regulate disposable plastic bottles (5.1.3); (iii) increase the collection and recovery of priority products under the Extended Producer Responsibility (ERP) Act (Law 20,920), such as tires, containers, and packaging (5.1.4); (iv) publish the Chile Circular 2040 roadmap, establishing initiatives to accelerate the transition toward circular production and consumption models in Chile (5.1.5); (v) increase the circularity of the construction industry through the publication of the 2035 roadmap for the circular economy in construction and construction and demolition waste (5.1.6); and (vi) improve the mining industry's environmental performance and increase its circularity⁵⁷ by launching the strategic environmental assessment procedure of the 2050 National Mining Policy, involving indigenous peoples in the preparation of the 2050 National Mining Policy, establishing the

⁵⁶ Reducing gender gaps in the use of digital technologies is a goal of the National Gender Policy in science, technology, knowledge, and innovation. The monitoring and evaluation reporting framework developed in this operation will enable progress and trajectories towards these policy objectives to be measured.

⁵⁷ Conclusions of the technical committee on green mining and the strategic environmental assessment process available at: [National Mining Policy \(PNM\)](#).

program of periodic updates and audits of mine and mining operation closure plans, and publishing standards on air quality in the sector (6.1.1, 6.1.2, 6.1.3, 6.1.4). The indicative measures for the second PBP operation build on those of the first and are associated with the preparation of a draft bill to regulate the final disposal and recovery of organic wastes; regulation under the law governing the supply of single-use plastic products and plastic bottles; promulgation of the Ministry of the Environment (MMA) Decrees establishing collection and recovery targets for priority products such as lubricating oils, batteries, and electrical and electronic equipment; implementation of actions identified in the Chile Circular 2040 Roadmap; updating of the Interministerial Agreement on Sustainable Construction, and preparation of an agreement to implement an agenda on quality infrastructure; review of the regulation on the management of construction and demolition wastes; publication of the National Mining Policy 2050, with “green” mining commitments and an indigenous people’s chapter;⁵⁸ publication of an updated program of audits, and a report on compliance with observations on mine and mining operations closure plans, as well as a report on the implementation of the continuous emissions monitoring systems, and a report on the results of implementation of the methodology for calculating emissions in the mining supply chain.

- 1.23 **Component IV: Support to MSEs and the labor force.** This component aims to support productive development in the face of the economic crisis caused by COVID-19 by providing liquidity to MSEs, particularly those led by women; fostering a recovery in formal employment through incentives for workers to choose a formal job, with enhanced incentives for women; and promoting employability through improvements to the labor intermediation system’s offering. The first operation under the PBP will support the following measures: (i) legislative approval of a support payment for MSEs (“Bono de Alivio a MYPE”), which envisages a 20% increment in the value of the payment for individuals or owners of individual limited liability companies who are registered as women (7.1.1); (ii) approval of a formal employment subsidy, with a higher ceiling for women, young people, persons with disabilities, and disability pensioners (8.1.1); (iii) creation of a Ministerial Advisory Board on Labor Market Research (9.1.1); and (iv) incorporating incentives for placements in the standard agreements between the National Training and Employment Service (SENCE) and the Municipal Employment Information Offices (OMILs) (9.1.2). The indicative policy actions for the second operation under the PBP II are: evaluation of the performance of companies benefiting from the “Bono de Alivio a MYPE” in terms of survival and sales; the evaluation of the “IFE Laboral” subsidy for formal employment in terms of its targeting and formal job creation, publication of the National Labor Market Research Strategy, and raising the OMILs’ target for annual placements in order to receive the incentive.

2. Loan based on results (US\$300,000,000)

- 1.24 **Component I: Digital transformation (US\$45,000,000).** The expected outcome is an increase in digital connectivity in terms of the number of mobile broadband

⁵⁸ For more details see: [Minería Verde PNM 2050](#) and [Pueblos Indígenas](#).

lines per 100 inhabitants. To bolster achievement, it will finance a subsidy,⁵⁹ established in Law 18168, General Law on Telecommunications, enabling enhanced connectivity and the adoption of digital services through the roll-out of last-mile and aggregation infrastructure, thus helping boost digital connectivity infrastructure investment.

- 1.25 **Component II: Circular economy (US\$5,000,000).** The expected outcome is an increase in the number of municipios or associations of municipios benefiting from the Recycling Fund, which finances a series of activities to promote reuse, recycling, and other forms of recovery of solid wastes at the municipal level, such as awareness-raising actions to encourage people to recycle and to minimize waste, supporting grassroots recyclers to enable them to obtain occupational certification, and financing demonstration projects, such as setting up recyclable waste collection points to facilitate and encourage recycling at the municipio level. As established in Law 20,920, the resources from the Recycling Fund are channeled through transfers from central government to the municipios or associations of municipios whose proposals are granted funding in accordance with the fund's rules. For the purposes of the LBR, projects awarded funding in 2020, 2021, and 2022 will be considered.
- 1.26 **Component III: Support to MSEs and the labor force (US\$250,000,000).** The expected outcome is the survival of MSEs benefiting from the “Bono de Alivio a MYPE,” measured by the number of beneficiary companies reporting sales and the number of workers accessing formal employment as a result of the “IFE Laboral” enhanced subsidy mechanism established in MTPS Decree 28/2011 who remain in their jobs for at least two months. To bolster achievement, it will partially finance the “Bono de Alivio a MYPE” support payment and “IFE Laboral” subsidy for formal employment.⁶⁰

C. Key results indicators

- 1.27 **Expected impact and outcomes.** Accomplishment of the general development objective will be measured through improvements in the following indicators: score on the readiness for economic transformation variable of the World Economic Forum's Global Competitiveness Index; score on the IDB's Broadband Development Index, material productivity; municipal solid waste recycling rate, ratio of contributors to affiliates of the pension system; and female labor force participation rate. In addition to the outcomes linked to disbursements itemized in Table 1, the program will measure the achievement of the specific objectives with additional indicators: (i) specific objective 1: increase in the allocation of spectrum to mobile communications and the percentage of procedures that citizens can complete entirely online (back and front end), preparation of an evaluation report on processes associated with the implementation of the National Gender Equality Policy in Science, Technology, Knowledge, and Innovation; (ii) specific objective 2:

⁵⁹ This is a supply-side subsidy through a reverse bidding process that aims to give the private sector incentives to reach rural or low population density areas.

⁶⁰ The “Bono de Alivio a MYPE” is a subsidy for MSEs that meet certain eligibility criteria regarding sales, employees, etc. The “IFE Laboral” subsidy is paid to workers not in the formal sector who take up a formal job between August and December 2021. Both subsidies offer a higher payment to women. See the [monitoring and evaluation plan](#).

reduction of the annual per capita generation of municipal solid waste and reduction of total direct greenhouse gas emissions from copper mining, increased rate of domestic recycling of plastic packaging and containers; and (iii) specific objective 3: survival of “Bono de Alivio a MYPE” beneficiary companies led by persons registered as women, which continue to report sales in the quarter preceding the measurement, the number of workers accessing a formal job as a result of the subsidy mechanism established in MTPS Decree 28/2011, strengthened with the “IFE Laboral” subsidy for formal employment and who remain in formal employment for at least two months (women) and an increase in the percentage of OMILs with standard agreements with the SENCE that receive incentives for exceeding the annual placement target.

Table 1. Outcome indicators linked to disbursements

Outcome indicator	Year 1		Year 2		Target and total amount	
	Target	Associated amount (US\$ million)	Target	Associated amount (US\$ million)	Target	Associated amount (US\$ million)
Component I: Digital transformation						
1.1 Number of mobile broadband lines per 100 inhabitants.	-	0	110	45	110	45
Component II: Circular economy						
2.1 Number of municipio or municipio association projects awarded funding from the Ministry of the Environment's Recycling Fund.	-	0	55	5	55	5
Component III: Support to MSEs and the labor force						
3.1 Number of businesses benefiting from the “Bono de Alivio a MYPE” that continue to report sales in the quarter preceding the measurement.	550,000	150	515,000	50	515,000	200
3.2 Number of workers accessing formal employment as a result of the subsidy mechanism established in MTPS Decree 28/2011, strengthened with the “IFE Laboral” subsidy, who remain in their new job for three months.	144,641	50	-	0	144,641	50
Total		200		100		300

1.28 **Economic assessment of the PBP.** On the basis of the Office of Evaluation and Oversight's recommendations in its review of the evaluability of the Bank's projects in 2011^{61,62,63} and the findings of the review of the evaluation practices and

⁶¹ Document RE-397-1: “Currently, the economic analysis section is computed as the maximum between the cost-benefit analysis and the cost-effectiveness analysis. However, neither a cost-benefit analysis nor a cost-effectiveness analysis is applicable to PBLs.”

⁶² Working Group on Public Sector Evaluation, 2012.

standards for policy-based loans carried out by the Evaluation Cooperation Group (ECG), comprising the independent evaluation offices of various multilateral development banks,⁶⁴ envisaged in paragraph 1.3 of the Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non Sovereign Guaranteed Operations (document GN-2489-5), which, inter alia, indicates that it would not be necessary to include an analysis of the efficiency of the use of financial resources, it was determined that no economic analysis would be conducted for this type of loan, as was reported to the Bank's Board of Executive Directors. Accordingly, this loan operation does not include an economic analysis and no such analysis is considered for purposes of measuring the evaluability score in the program's Development Effectiveness Matrix.

- 1.29 **Economic evaluation of the LBR.** The economic evaluation identifies the flows of benefits and costs generated by the program's three components. The benefits considered are: (a) estimated producer and consumer surpluses deriving from increased broadband penetration; (b) increased employment generated by certification issued to recyclers and the savings for municipios on the cost of final disposal of waste; (c) increased employment safeguarded by MSEs accessing support payments; and (d) increases in employment and wages deriving from employment subsidies. Calculations of the aforementioned flows, discounted at a rate of 12%, yield benefits for the program of US\$104.6 million and an internal rate of return of 25.4%. Additionally, the sensitivity analysis for each component shows that the net present value remains positive amid potential variations in a wide range of critical parameters ([optional link 1](#)).
- 1.30 **Beneficiaries.** The combination of the PBP and LBR instruments makes it possible to work simultaneously on public policy and investment actions producing social and productive impacts that maximize the benefits of the program. Specifically, implementation of policies included in the PBP should help boost GDP by 0.32% and productivity by 0.27%. Additionally, a 0.6% reduction in poverty and 4% reduction in carbon emissions are expected. The PBP will also benefit Chile's population through: (i) an update to the regulatory frameworks to foster the roll-out and universalization of digital infrastructure conducive to post-pandemic social and economic development; (ii) more efficient circular economy processes and reduced greenhouse gas emissions; and (iii) reforms to support employment generation and sustainability of the productive fabric. The LBR's beneficiaries will be: (i) approximately 1,339,700 citizens who will have access to quality Internet services; (ii) inhabitants of municipios receiving support for projects from the Recycling Fund; (iii) 550,000 businesses benefiting from the "Bono de Alivio a PYME" that maintain their sales; and (iv) 144,641 workers benefiting from the "IFE Laboral" subsidy for formal employment who remain in their formal jobs for at least two months.

⁶³ According to the Evaluation Cooperation Group, policy-based loans are to be evaluated for their relevance, effectiveness, and sustainability. Efficiency was not included as a criterion, as their size is associated with a country's financing gap and is independent of the project's benefits.

⁶⁴ ECG, 2012.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This hybrid program combines support for policy reform through a programmatic policy-based loan (PBP) and its first operation (CH-L1164) with monitoring of the policy reforms through a loan based on results (LBR) (CH-L1166).
- 2.2 **Financing instrument and dimensioning-PBP.** Operation CH-L1164 has been structured as a PBP and is the first operation of a programmatic series consisting of two contractually independent but technically linked loans in line with the guidelines for the preparation and implementation of programmatic policy-based loans set forth in document CS-3633-2. The programmatic modality was chosen because: (i) it promotes ongoing policy dialogue with the Chilean government; and (ii) it facilitates monitoring of reforms and enables findings from program implementation to be fed back into them, so as to lock the progress made in to the second operation, which is planned for 2023. This operation could be designed though a combination of financial instruments or as a policy loan, in accordance with the financing strategy and needs of the Chilean government and the Bank.
- 2.3 The first operation under the PBP is for up to US\$100 million from the Bank's Ordinary Capital. This amount will cover the country's broad fiscal resource needs, linked to the reforms the borrower is to make, as established in paragraph 3.27 (b) of "Policy-Based Loans: Guidelines for Preparation and Implementation" (document CS-3633-2). The resources will be disbursed in a single tranche, which is justified by the country's financing requirements to maintain a stable macroeconomic environment. This operation represents 0.475% of the debt authorization under the 2022 Budget Bill, sent to congress for discussion.
- 2.4 **Financing instrument-LBR.** Operation CH-L1166 has been structured as an LBR for US\$300 million from the Bank's Ordinary Capital and will be disbursed over two years. It complies with the guidelines of the Proposal to Establish the Bank's Sovereign-guaranteed Loan Based on Results (document GN-2869-1) and the Guidelines for Processing Loans Based on Results (document GN-2869-3), as the program as a whole will improve the performance of government programs promoted by the PBP's policies, offering a supply-side subsidy to incentivize digital connectivity coverage in zones with low population density, increasing the institutional and financial capacity of municipios to implement recycling activities and projects that accelerate the transition toward circularity, and enhancing the mechanism to support MSEs' liquidity and employment recovery, with a gender perspective.

**Table 2. LBR budget by component and source of funding
(US\$ millions)**

Components	IDB (OC)
I. Digital transformation	45
II. Circular economy	5
III. Support to MSEs and the labor force	250
Total	300

Note: Assuming no changes to the program objectives, resources could be reallocated between the loan components by agreement in writing between the Bank and the borrower.

**Table 3. Disbursement schedule and tranches of the LBR
(US\$ millions)**

Disbursements	Year 1	Year 2	Total
IDB (OC)	200	100	300
Percentage (%)	66.7	33.3	100

B. Environmental and social risks

- 2.5 This hybrid program, consisting of a PBP and an LBR, is considered a flexible lending instrument (Directive B.13) under the Bank's Environment and Safeguards Compliance Policy (OP-703) and does not require ex ante classification. The policy changes implemented under the PBP will have no direct or significant impact on the country's environment or natural resources. This operation is not intended to finance infrastructure, so no adverse environmental and social impacts are expected.⁶⁵ Social risks may arise if there is any discrimination in the allocation of financial support to businesses; these risks will be mitigated by applying eligibility criteria, national regulations, and the rules followed when providing financial support. The country systems are appropriate for the management of the operation's environmental and social risks. No environmental and social assessment or public consultation is required prior to approval of the operation.
- 2.6 In Component III (PBP), it should be noted that indigenous peoples were involved in the participatory preparation of the 2050 National Mining Policy,⁶⁶ as established in Article 7 of Convention 169 of the International Labour Organization (ILO), which requires a culturally appropriate process with meaningful participation of indigenous peoples throughout. Accordingly, indigenous leaders contributed to the codesign, together with Ministry of Mining authorities, of a methodology for the preparation of an indigenous peoples' chapter of the 2050 National Mining Policy (PNM).⁶⁷

⁶⁵ For digital connectivity projects, existing infrastructures will be utilized, and a relevance consultation with the Ministry of the Environment is required as part of the proposals. Additionally, the installation of equipment will be subject to the environmental and health regulations in force at national and local level.

⁶⁶ Ministry of Mining (2021).

⁶⁷ [Methodological agreement](#).

C. Fiduciary risks

- 2.7 No fiduciary risks were identified in the case of the PBP. The proceeds of this operation will go into the fiscal single account at the Treasury of the Republic to cover the country's financing requirements, for which the executing agency has the necessary financial management instruments and oversight systems.
- 2.8 In the case of the LBR, the Bank has determined that the national financial management systems are acceptable for use in Bank operations, and use of Chile's country procurement system has also been approved by the Bank. The results of the various evaluations have shown that officials have a high level of knowledge and experience in the use of country fiduciary systems. Two medium-high fiduciary risks have been identified: (i) if the coexecuting agencies do not have personnel trained on Bank standards; and/or (ii) if the coexecuting agencies' personnel do not have time allocated to this program, there may be delays in report preparation, leading to delays in the disbursement periods envisaged for the LBR. These risks will be mitigated with technical assistance through a technical cooperation operation and from Bank specialists, and training courses on Bank standards. Dialogue will also be fostered between Budget Directorate (DIPRES) authorities and coexecuting agencies to prioritize the time of personnel assigned to the program.

D. Other key issues and risks

- 2.9 The evaluation identified a political environment risk as part of the execution environment. This risk was considered medium-high because any delays affecting the formalization of decrees enabling borrowing and approving the loan contract could push back the eligibility date given to the operation by the Bank, which would delay the disbursement period envisaged for the first PBP operation. To mitigate this risk, DIPRES will prepare a draft decree enabling borrowing so as to advance the internal review process and reduce the likelihood of delays, and the Ministry of Finance will support DIPRES's procedures so as to reduce the likelihood of delays.
- 2.10 **Sustainability.** In view of the impact of the digital transformation and transition to circular production and consumption models on competitiveness and sustainable development, the prioritization and correlation of policy measures defined in the matrix and the investments arising out of them is being coordinated with the executing agency, as are the measures in the second tranche through the technical cooperation support. Short- and medium-term interventions and a predictable regulatory framework will encourage public-private investments with technical and financial solutions that improve the competitiveness indicators in a sustainable and inclusive way.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements for the PBP

- 3.1 The borrower will be the Republic of Chile, and the executing agency will be the Ministry of Finance, acting through its Budget Directorate (DIPRES), which will be responsible for coordination and reporting of fulfillment of the policy commitments and consolidation of the sector reforms under the PBP.

- 3.2 **Special contractual conditions precedent to the first and sole disbursement of the PBP: The disbursement of proceeds will be subject to fulfillment of the policy reform conditions established in the Policy Matrix (Annex II), the [Policy Letter](#), and the conditions established in the corresponding Loan Contract.**

B. Summary of implementation arrangements for the LBR

- 3.3 The program coordination unit (PCU) for the LBR will be established as part of DIPRES. The structure of the PCU will include personnel from the Public Credit Unit (UCP), with two additional profiles (consultants) with experience of fiduciary matters and monitoring. The implementation arrangements will be defined by the PCU, which will coordinate the activities of the coexecuting agencies: (a) the Office of the Deputy Secretary for Telecommunications (SUBTEL), within the Ministry of Transportation and Telecommunications for the activities of Component I of the LBR; (b) the Office of the Deputy Secretary for the Environment, within the Ministry of the Environment for the activities of Component II of the LBR; (c) the Treasury of the Republic (TGR) for the activities of Component III of the LBR; and (d) the National Training and Employment Service (SENCE) for the activities of Component III of the LBR.
- 3.4 The PCU will be responsible for: (i) complying with the contractual provisions for which the program executing agency is responsible vis-à-vis the Bank; (ii) coordinating implementation and conducting liaison and formal communication with the Bank; (iii) consolidating reports on achievement of results; (iv) consolidating, preparing, and submitting disbursement requests to the Bank; (v) consolidating financial statements for presentation to the independent audit entity, as established in the loan contract, and the Bank; and (vi) conducting monitoring activities, including preparation of the program's semiannual reports. The specific roles and responsibilities of DIPRES and each of the coexecuting agencies will be detailed in the program [Operating Regulations](#).
- 3.5 **Institutional coordination mechanism.** DIPRES is the technical agency responsible for steering, regulating, and supervising the process of budget formulation and execution, such that it has channels of communication in place with all government ministries and agencies. It therefore fulfills a coordinating role in many common public sector activities and will be supported by the Bank for this purpose. The coordination mechanism will be detailed in the program [Operating Regulations](#).
- 3.6 **Institutional capacity.** The Institutional Capacity Assessment Platform (ICAP) was used to analyze the institutional capacity of the executing agency and coexecuting agencies, confirming that they have sufficient institutional capacity for program execution and to achieve the objectives of the LBR. Specifically, it was confirmed that DIPRES has experience in the negotiation and implementation of operations with the IDB and other international organizations. For their part, coexecuting agencies have technical personnel for regular activities financed by the LBR. The following improvement measures have been identified: (i) strengthening the executing agency's team in the monitoring, financial, and institutional areas so as to ensure correct program execution and support to coexecuting agencies; (ii) incorporating protocols for the preparation of financial reports based on the accounting records; (iii) incorporating the following in the

- program Operating Regulations: the roles and responsibilities of each actor, a diagram of institutional relations, with the description of the coordination mechanism between the various coexecuting agencies, formal procedures for activities relating to indicator reporting, financial management, and non-standardized technical activities; and (iv) supporting the strengthening of financial report generating systems (SIGFE), given that execution involves different services and systems. The Bank will also support the training of the fiduciary team to be appointed by DIPRES.
- 3.7 **Disbursements.** Each disbursement from the LBR will be made once fulfillment of the targets envisaged for each of the indicators has been confirmed (Table 1 and Annex III). Fulfillment of the targets will be verified by an independent verifying entity (firm, individual consultant, or other independent entity) which will: (i) issue a technical opinion on the accuracy, reliability, and consistency of the information on the outcomes; and (ii) determine the value of the outcome indicators established in each disbursement tranche, performing the requisite calculations in cases where there are no automatic independent reports.
- 3.8 **Disbursement procedures.** Disbursements will be processed as follows: (i) the PCU will consolidate a progress report on program implementation and the outcome indicators used for disbursements, as listed in Table 1 and Annex III, under the disbursements indicators table, and will send this report for external verification of outcomes. This verification will examine fulfillment of outcome indicators based on the protocols established in the [monitoring and evaluation plan](#); (ii) independent external evaluators will verify compliance of the outcomes with respect to the objectives mentioned in the preceding paragraph and within the periods agreed in the terms of reference; and (iii) once achievement of the disbursement results has been verified, the PCU will send the corresponding disbursement request to the Bank, following the standard procedures and timelines, and will process the disbursement to the account indicated by the borrower, with the Bank disbursing the amount corresponding to each indicator, if and only if the results of the external verification show that the value of the indicator in question is equal to or greater than the target set. If the indicator value is lower, the disbursement will be proportional to the attainment of the target. Unused balances may be rescheduled for subsequent disbursements.
- 3.9 **Requirements of the independent verifying entity.** The individual or firm engaged will be required to have experience in project evaluation and monitoring, in working with results indicators, and in evaluating the reliability of the sources of information and the methods used to produce it. The terms of reference for this contracting will be agreed upon previously with the Bank, and the resources will be drawn from the technical cooperation operation (ATN/KK-17731-CH) and the Bank's resources for operation supervision (paragraph 1.11).
- 3.10 **Special contractual conditions precedent to the first disbursement of the LBR.** Evidence of the following will be presented: (i) appointment of the program coordination unit (PCU); (ii) appointment or hiring, as applicable, of the coordinator and at least one fiduciary technical/operational specialist in the PCU; (iii) approval and entry into force of the [Program Operating Regulations](#) under the terms previously agreed upon with the Bank; and (iv) the contracting of a consulting firm or an independent consultant

responsible for external verification of results, in accordance with the terms of reference previously agreed upon with the Bank. Conditions (i) and (ii) are justified by the fact that the PCU needs to be formalized to ensure that the team responsible for implementation has the necessary experience in program operating and fiduciary processes; condition (iii) is needed to ensure that the executing agency has detailed regulations establishing the guidelines necessary for successful implementation; and condition (iv) is justified by the need to verify the corresponding results under the LBR instrument.

- 3.11 **Program Operating Regulations.** This document will describe, at minimum, the strategy and execution mechanisms of the LBR: (i) the program's organizational structure; (ii) the technical and operational arrangements for its execution; (iii) the specific roles and responsibilities of DIPRES and the coexecuting agencies; (iv) the coordination mechanism between DIPRES and the coexecuting agencies; (v) the arrangements for the programming, monitoring, and evaluation of results; and (vi) a detailed description of the results indicators and their verification protocols. The [program Operating Regulations](#) include the criteria for the external verification of the program results. As necessary, an annex on reputational impact and integrity risk will be attached to the program Operating Regulations.
- 3.12 **Financing of results prior to eligibility.** The Bank may retroactively recognize, against the loan proceeds, results achieved by the borrower between the project profile approval date (1 October 2021) and the loan eligibility date, up to an amount equal to 15% of the LBR amount (US\$45 million).
- 3.13 **Auditing the LBR.** The external audit will be conducted by an independent audit entity acceptable to the Bank, such as the Office of the Comptroller General of the Republic (CGR). During the LBR disbursement period, the program's audited financial statements are to be submitted within 120 days after the end of the executing agency's fiscal period in accordance with the terms of reference agreed upon with the Bank. The last report is to be delivered within 120 days of the date stipulated for the final loan disbursement. The executing agency, with the support of the Finance and Administration Unit, will prepare the program's audited financial statements. The final audited financial statements will include an analysis of possible differences between the actual program costs and the sums disbursed.

C. Summary of arrangements for monitoring results

- 3.14 **Arrangements for monitoring the PBP.** Monitoring of the PBP will be conducted through verification of the policy measures agreed upon as conditions for disbursements. These are described in Annex II and the [Means of Verification Matrix](#), which itemizes the documents to be used to verify fulfillment. This matrix contains all the actions to be implemented in the first operation under the programmatic policy-based loan, the entities responsible for achieving them, and specific information that will allow the Bank to verify their achievement. The results of the policy changes promoted will be monitored as reported in Annex III and the [monitoring and evaluation plan](#).
- 3.15 **Arrangements for monitoring the LBR.** The LBR will be monitored by verifying the fulfillment of the targets associated with the results indicators for disbursements described in Table1 and Annex III.

- 3.16 **Evaluation arrangements.** The impact of the “Bono de Alivio a MYPE” support payments will be evaluated using the discontinuous regressions method, utilizing the discontinuity in eligibility based on company sales. A “before and after” evaluation without attribution will be performed for the other indicators. These evaluations will be carried out based on the project completion report, which will be prepared for the two operations together after completion of the LBR or the second PBP operation, whichever is later.

IV. POLICY LETTER

- 4.1 The [Policy Letter](#) reiterates the Government of Chile’s commitment to the objectives and actions envisaged for the programmatic series and the consistency of national policies to promote competitiveness gains in Chile in a way that fosters sustainable and inclusive growth.

Development Effectiveness Matrix		
Summary CH-L1164 & CH-L1166		
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	<div>-Social Inclusion and Equality</div> <div>-Productivity and Innovation</div> <div>-Economic Integration</div> <div>-Gender Equality and Diversity</div> <div>-Climate Change</div> <div>-Institutional Capacity and the Rule of Law</div>	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	<div>-Beneficiaries of employment support initiatives (#)</div> <div>-Micro / small / medium enterprises financed (#)</div> <div>-Beneficiaries with new access to at least a 4G mobile network (#)</div> <div>-Women beneficiaries of economic empowerment initiatives (#)</div> <div>-Emissions avoided (annual tons CO2 equivalent)</div>	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2946	(i) simplify government procedures for the public; (ii) narrow connectivity gaps, raise ICT speed, and improve affordability; (iii) promote business innovation; and (iv) facilitate access to finance for investment, mainly for underserved segments
Country Program Results Matrix		The intervention is not included in the 2021 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		10.0
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		2.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium Low
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit. Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	ATN/KK-17731-CH , ATN/OC 18546-RG , ATN/OC-17922-CH , ATN/OC-18383-CH

Evaluability Assessment Note: It is a hybrid project, combining a policy-based programmatic loan (PBP) and a results-based loan (PBR). The project has financing of US\$400 million of ordinary capital from the IDB, US\$100 million to finance the PBP and US \$ 300 million for the PBR. The diagnosis is adequate and well documented by international evidence, highlighting the specific problems of the country. The main problem lies in the low competitiveness exhibited by Chile originated, among other causes, by the low level of digitization (both at the public and private level), the predominance of linear production and consumption models that negatively impact the environment, and the little capacity of the labor market to adapt to the disruptions caused by the pandemic, especially among female workers and MSE entrepreneurs. The combined project seeks to promote an improvement in Chile's competitiveness that promotes sustainable and inclusive growth. The specific objectives are: (i) accelerate the digital transformation of public services, as well as digital connectivity; (ii) promote the transition to circular models of production and consumption; and (iii) promote, with special emphasis on women, the recovery and formalization of employment through support for micro and small enterprises (MSEs), and incentives for hiring and job placement. The results matrix is consistent with the vertical logic of the operation and presents indicators of impact and results, that are reasonable, well specified and adequate to measure the achievement of the specific objectives. The evaluation plan proposes an impact evaluation with attribution for the main program supported by the project, the MYPE Bond, and a before and after analysis for the indicators associated with other interventions, complemented by a review of the theory of change of the intervention, a review of the evidence in the literature on the effectiveness of similar interventions in comparable settings, and a qualitative evaluation. The economic analysis of the PBR shows an IRR of 25.3% for the entire project. The project has received a medium-low global risk classification, with the main risks detected being of a political or human resources nature and that could generate delays in approval or disbursement deadlines. The proposed mitigation measures are adequate and can be monitored throughout the project.

POLICY MATRIX

Objective: The general objective of the program is to drive gains in Chile's competitiveness in a way that promotes sustainable and inclusive growth. The specific objectives are: (i) to accelerate the digital transformation of public services and digital connectivity; (ii) to promote the transition toward circular production and consumption models; and (iii) to promote the recovery and formalization of jobs by supporting micro and small enterprises (SMEs) and incentivizing hiring and labor intermediation, with a particular emphasis on women.

Components/Policy objectives	Policy conditions Programmatic loan I	Status of fulfillment of conditions of programmatic loan I ¹	Triggers Programmatic loan II
Component 1: Macroeconomic stability			
1. Macroeconomic stability.	1.1.1 The macroeconomic environment is conducive to achievement of the program objectives and consistent with the Policy Letter.	Fulfilled	1.2.1 The macroeconomic environment is conducive to achievement of the program objectives and consistent with the Policy Letter.
Component 2: Digital transformation			
2. To strengthen digital connectivity infrastructure.	<p>2.1.1 Decrees have been published² in the Official Journal of the Ministry of Transportation and Telecommunications awarding intermediate service concessions for:</p> <p>(i) the Arica y Parinacota, North, North-center, Center, and South-center macrozones, under the "National Optical Fiber" public call for tender (FDT-2019-1), with the aim of deploying 7,040 km of optical fiber, benefiting 153 comunas, 185 localities, and 2,939,795 inhabitants.</p> <p>and (ii) the South macrozone under the "National Optical Fiber" public call for tender (FDT-2019-1-SUR) with the objective of deploying 2,520 km of optical fiber, benefiting 49 comunas, 58 localities, with 779,176 inhabitants.</p>	<p>(i) Fulfilled (2020 Q3)</p> <p>(ii) Fulfilled (2021 Q4)</p>	2.2.1 Evidence has been provided, in the form of an official letter from the Office of the Deputy Secretary for Telecommunications (SUBTEL), of reception of the works in the macrozones for which contracts were awarded under the "National Optical Fiber" public call for tender (FDT-2019-1 and FDT-2019-1-SUR).

¹ This information is merely indicative as of the date of this document. In accordance with the guidelines for preparation and implementation of policy-based loans (document CS-3633-2), fulfillment of any specified disbursement conditions, including maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank when the borrower makes the corresponding disbursement request and will be reflected in a timely manner in the disbursement eligibility memorandum.

² In this policy matrix, the terms "publication" or "published" include the preparation, development, and where applicable, the approval and promulgation of the corresponding policy measure.

Components/Policy objectives	Policy conditions Programmatic loan I	Status of fulfillment of conditions of programmatic loan I ¹	Triggers Programmatic loan II
	2.1.2 Evidence has been provided, in the form of an official letter from SUBTEL, of reception of the works to implement telecommunications services on the submarine trunk link and Magallanes terrestrial trunk link under the “Austral Optical Fiber” public call for tender (FDT-2017-01).	Fulfilled (2020 Q1)	2.2.2 An evaluation of the quality and sustainability of the telecommunications services over the submarine trunk link and the Magallanes terrestrial link has been carried out under the “Austral Optical Fiber” public call for tender (FDT-2017-01).
	2.1.3 An Exempt Resolution issued by SUBTEL has: (i) authorized the installation and operation, for trial purposes, of a 5G pilot in mining facilities within the Radomiro Tomic mine; and (ii) the internal regulations on the operation of the “5G national observatory” establishing its basic rules of operation have been approved.	(i) Fulfilled (2020 Q3) (ii) Fulfilled (2020 Q4)	2.2.3 An impact evaluation of the pilot program on “5G artificial intelligence cameras in mining” has been conducted.
3. To strengthen the institutional and regulatory framework for the digital transformation.	3.1.1 SUBTEL has issued Exempt Resolutions that have awarded public telecommunications service concessions for radio frequency bands for 5G (700MHz, AWS, 3.5GHz, 26GHz).	Fulfilled (2021 Q1)	3.2.1 Decrees by the Ministry of Transportation and Telecommunications have been published in the Official Journal awarding public telecommunications service concessions for radio frequency bands for 5G (700MHz, AWS, 3.5GHz, 26GHz).
	3.1.2 A Decree-law by the Office of the Secretary-General of the Presidency has been published in the Official Journal establishing the rules applicable under the Government Digital Transformation Act (Law 21,180) (LTDE) regarding administrative procedures regulated in special laws that are expressed by electronic means and determining their phased application.	Fulfilled (2021 Q2)	3.2.2 At least 70% of the entities in Group A of Office of the Secretary-General of the Presidency Decree-law 1/2020 have implemented “DocDigital” as the crosscutting digital solution for document exchange, or a compatible alternative solution that is interoperable with “DocDigital”.
	3.1.3 The Comptroller General of the Republic (CGR) has received for its review the regulations prepared by: (i) the Office of the Secretary-General of the Presidency; and (ii) the Ministry of Culture, the Arts, and Heritage, required for entry into force of the LTDE.	(i) Fulfilled (2021 Q1) (ii) Fulfilled (2021 Q3)	3.2.3 Decrees by the Office of the Secretary-General of the Presidency and the Ministry of Culture, the Arts, and Heritage have been published in the Official Journal approving the regulations required for the entry into force of the LTDE.

Components/Policy objectives	Policy conditions Programmatic loan I	Status of fulfillment of conditions of programmatic loan I ¹	Triggers Programmatic loan II
	<p>3.1.4 The Office of the Secretary-General of the Presidency has conducted:</p> <p>(i) a public consultation on the implementation model for the LTDE;</p> <p>(ii) a public consultation on the scope and the content of the six technical standards required to implement the LTDE; and</p> <p>(iii) public consultations on the specific content of: (a) the “Authentication Technical Standard”; and (b) the “Quality and Functioning Technical Standard” for electronic platforms.</p>	<p>(i) Fulfilled (2020 Q4)</p> <p>(ii) Fulfilled (2021 Q2)</p> <p>(iii) Fulfilled (2021 Q3)</p>	<p>3.2.4 The technical specification for interoperability, information security, and cybersecurity, electronic documents and dossiers, notifications, quality, functioning, and authentication technology have been defined and approved by a Decree by the Office of the Secretary-General of the Presidency.</p>
4. To promote digital inclusion.	<p>4.1.1 The second edition of the “Online Ideathon for Chile STEM Girls,” aiming to narrow the digital gender gap, has been held by SUBTEL.</p>	Fulfilled (2021 Q3)	<p>4.2.1 A third edition of the “Online Ideathon for Chile STEM Girls” has been held.</p>
	<p>4.1.2 The institutional website of the “PYMEs en Línea” [SMEs online] program to raise awareness of how to use existing digital technologies and tools with the aim of facilitating digital adoption and raising the level of digital maturity among the country’s SMEs has been implemented by the Chilean Economic Development Agency (CORFO).</p>	Fulfilled (2020 Q2)	<p>4.2.2 The impact of the “PYMEs en Línea” program has been analyzed.</p>
	<p>4.1.3 A framework for monitoring progress on gender equality in science, technology, knowledge, and innovation has been designed by the Ministry of Science, Technology, Knowledge, and Innovation (MINCIENCIA).</p>	Fulfilled (2021 Q3)	<p>4.2.3 Progress on gender equality in science, technology, knowledge, and innovation has been evaluated.</p>
Component 3: Circular economy			
5. To develop a regulatory and policy framework to accelerate the transition toward circular production and consumption models.	<p>5.1.1 The “Estrategia Nacional de Residuos Orgánicos Chile 2040” [Chile 2040 National Organic Waste Strategy], which proposes actions to achieve recovery rates of 66% of municipal solid waste by 2040, has been published on the Ministry of the Environment (MMA) institutional website.</p>	Fulfilled (2021 Q3)	<p>5.2.1 A draft bill regulating the final disposal of organic wastes and their recovery has been prepared and sent to the Council of Ministers for Sustainability.</p>

Components/Policy objectives	Policy conditions Programmatic loan I	Status of fulfillment of conditions of programmatic loan I ¹	Triggers Programmatic loan II
	5.1.2 The Pacific Alliance Roadmap Toward Sustainable Management of Plastics under Chile's rotating presidency in 2020 has been published.	Fulfilled (2020 Q4)	5.2.2 The regulations under the law governing the supply of plastic products to foster reuse and environmental certification of single-use plastics and to regulate disposable plastic bottles have been published in the Official Journal.
	5.1.3 A law limiting the supply of single-use plastic products in food outlets to foster reuse and environmental certification of single-use plastics and regulate disposable plastic bottles has been published in the Official Journal.	Fulfilled (2021 Q3)	
	5.1.4 MMA Decrees have been published in the Official Journal establishing targets for collection and recovery and other obligations regarding: (i) tires; and (ii) packaging and containers.	(i) Fulfilled (2021 Q1) (ii) Fulfilled (2021 Q1)	5.2.3 MMA Decrees have been published in the Official Journal establishing targets for collection and recovery and other obligations regarding: (i) lubricating oils; (ii) batteries and electrical and electronic equipment; and (iii) rechargeable batteries.
	5.1.5 The "Chile Circular 2040" roadmap, establishing initiatives to accelerate the transition toward circular production and consumption models in Chile has been published on the MMA's institutional website. This roadmap is based on four pillars: (i) circular innovation; (ii) circular culture; (iii) circular regulation; and (iv) circular territories.	Fulfilled (2021 Q3)	5.2.4 The actions identified in the "Chile Circular 2040" roadmap have been carried out. These include: (i) a permanent monitoring system for progress on the transition toward the circular economy; (ii) the publication of a regulation on certification, marking, and labeling; (iii) a comparative study on the feasibility and potential for the evaluation of new priority products under the Extended Producer Responsibility Act; (iv) publication of regulations on waste management in composting plants; (v) preparation of a regulation to enable utilization of nonhazardous industrial wastes; and (vi) regulatory enabling of the bulk sale of products.
	5.1.6 The 2035 roadmap for construction and demolition waste and the circular economy in construction has been published on the MMA's institutional website. The basic goal of this roadmap is to guide actions of the construction sector to encourage efficient management of resources, reduced extraction of raw materials, and prevention of waste generation during building and infrastructure projects.	Fulfilled (2020 Q3)	5.2.5 (i) an updated interministerial agreement on sustainable construction has been signed by the MMA, the Ministry of Public Works, the Ministry of Energy, the Ministry of Social Development and the Family, the Ministry of the Economy, Development, and Tourism, and the Ministry of Housing and Urban Planning; and (ii) an agreement between the MMA and the National Standards Institute has been prepared to implement an agenda on infrastructure for quality.

Components/Policy objectives	Policy conditions Programmatic loan I	Status of fulfillment of conditions of programmatic loan I ¹	Triggers Programmatic loan II
			5.2.6 The regulation on management of construction and demolition waste has been reviewed by the Council of Ministers for Sustainability.
6. To improve environmental performance and competitiveness of the mining sector by promoting its transition toward circularity.	6.1.1 Exempt Resolutions issued by the Office of the Deputy Secretary for Mining have been published: (i) launching the strategic environmental assessment of the 2050 National Mining Policy, by amendment of Law 19,300 through Law 20,417; and (ii) a process enabling the participation of indigenous peoples has been provided for in the preparation of the 2050 National Mining Policy, in accordance with Article 7 of International Labour Organization Convention 169.	(i) Fulfilled (2020 Q3) (ii) Fulfilled (2020 Q4)	6.2.1 The 2050 National Mining Policy has been published, along with the implementation commitments, including those on Green Mining and the Indigenous Peoples Chapter.
	6.1.2 An Exempt Resolution issued by the National Geology and Mining Service (SERNAGEOMIN) establishing the program of periodic updates and audits of mine and mine facility closure plans has been published in the Official Journal.	Fulfilled (2021 Q1)	6.2.2 An updated audit schedule and report on compliance with observations on mine and mine facility closure plans has been published.
	6.1.3 Exempt Resolutions issued by the MMA have been published in the Official Journal: (i) launching the process of formulating a draft primary air quality regulation for arsenic; (ii) the process of review of MMA Decree 28 of 2013 establishing the emissions standards for copper foundries and sources of arsenic emissions has been launched; and (iii) the document on the general instructions complementing the online connection obligation for CEMS has been approved.	(i) Fulfilled (2020 Q4) (ii) Fulfilled (2020 Q4) (iii) Fulfilled (2021 Q2)	6.2.3 The report on the results of implementation of continuous emissions monitoring systems (CEMS) has been published.
	6.1.4 Guidelines on emissions in the mining supply chain have been published on the Ministry of Mining institutional website.	Pending fulfillment (2021 Q4)	6.2.4 A report has been published with results of the implementation of the emissions calculation methodology for the mining supply chain.

Components/Policy objectives	Policy conditions Programmatic loan I	Status of fulfillment of conditions of programmatic loan I ¹	Triggers Programmatic loan II
Component 4: Support to micro and small enterprises (MSEs) and the labor force			
7. To bolster MSEs' liquidity to sustain productive development in the face of the economic crisis caused by COVID-19 with a gender perspective.	7.1.1 A law has been published in the Official Journal that strengthens the MSE support mechanisms by issuing a support payment ("Bono MYPE 2021") to see MSEs through the crisis caused by the COVID-19 pandemic; and envisages a 20% increase in the value of the payment to individuals or owners of limited liability companies registered as women.	Fulfilled (2021 Q2)	7.2.1 "Bono MYPE 2021" has been evaluated to measure the survival rate among beneficiary businesses.
8. To promote the recovery in formal employment, with a gender perspective.	8.1.1 A Supreme Decree by the Ministry of Labor and Social Welfare has been published in the Official Journal enhancing the subsidies for formal employment, envisaging subsidies equivalent to 50% of men's gross monthly remuneration, with a ceiling of Ch\$200,000 per month; and 60% of the gross monthly remuneration of women, young people, persons with disabilities, and disability pensioners, with a ceiling of Ch\$250,000 per month.	Fulfilled (2021 Q3)	8.2.1 The "IFE Laboral" subsidy for formal employment has been evaluated to measure its effectiveness at promoting stable formal employment, identifying differential effects for women.
9. To promote employability through improvements in the labor intermediation services offering.	9.1.1 A Decree by the Ministry of Labor and Social Welfare has been published creating a Ministerial Advisory Board on Labor Market Research, with a remit to define, implement, and monitor the National Labor Market Research Strategy, with a gender perspective.	Fulfilled (2021 Q4)	9.2.1 The labor intermediation system has been strengthened by publication of the National Labor Market Research Strategy.
	9.1.2 Payment of a monetary incentive for exceeding the annual placement target for persons served by the Municipal Employment Information Offices (OMILs) has been added to the standard agreements between the National Training and Employment Service (SENCE) and the OMILs.	Fulfilled (2021 Q1)	9.2.2 The OMILs' target for receiving the incentive for annual placements has been raised.

RESULTS MATRIX

Project objective:	This specific objectives of the operation are: (i) to accelerate the digital transformation of public services and digital connectivity; (ii) to promote the transition toward circular production and consumption models; and (iii) to promote the recovery and formalization of jobs by supporting micro and small enterprises (MSEs) and incentivizing hiring and labor intermediation, with a particular emphasis on women. Achievement of these objectives will support the general objective of the program to drive gains in Chile's competitiveness in a way that promotes sustainable and inclusive growth.
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GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline value	Baseline year	Expected year of achievement	Target	Means of verification	Comments
General development objective: To drive gains in Chile's competitiveness in a way that promotes sustainable and inclusive growth							
Score on the readiness for economic transformation variable of the World Economic Forum's Global Competitiveness Index.	Score	53/100	2020	2025	54.74/100	World Economic Forum (WEF) report	Available on the estimated date of the project completion report. Methodological details in required link 3 .
Score on the IDB Broadband Development Index.	Score	5.63/8	2020	2025	6.3/8	IDB report	
Material productivity.	US\$ per kilogram of material used	0.56	2017	2025	0.58	MMA report	
Municipal solid waste recycling rate.	Percentage	2	2018	2025	4	MMA report	
Ratio of contributors to affiliates of the pension system: Women Men Total	Percentage	44.4 53.6 49.3	Average 09/2020 - 08/2021	2025	46.4 55.4 51.2		
Female labor force participation rate.	Percentage	45.8	Average 06-08/2021	2025	53	Statistical Bulletin: Quarterly Employment (INE)	Idem. Pro-gender indicator.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Project end ¹	Means of verification	Disbursement indicator (yes/no)
Specific development objective 1: To accelerate the digital transformation of public services and digital connectivity								
1.1 Number of mobile broadband lines per 100 inhabitants.	Number	96.1	2019	-	110	110	SUBTEL monthly report	Yes
1.2 Allocation of spectrum to mobile communications.	MHz	470	2020	1,870	0	1,870	SUBTEL report	No
1.3 Percentage of public administrative procedures fully digitalized (back and front end).	Percentage	20	2022	-	30	40	Digital Government Division report	No
1.4 Evaluation report prepared on processes associated with the implementation of the National Gender Equality Policy in science, technology, knowledge, and innovation.	Report	0	2021	0	1	1	MINCIENCIA report	No
Specific development objective 2: To promote the transition toward circular production and consumption models								
2.1 Number of municipio or municipio association projects awarded funding from the Recycling Fund of the Ministry of the Environment (MMA).	Number	13	2019	-	55	55	MMA report	Yes
2.2 Annual per capita generation of municipal solid waste.	Annual kilograms per capita	440	2018	-	431	431	MMA report based on the National Waste Reporting System (SINADER)	No
2.3 Rate of recycling of household plastic packaging and containers.	Percentage	4.5	2018	-	6	6	MMA report based on SINADER	No
2.4 Total direct greenhouse gas emissions from copper mining.	Billion metric tons CO ₂ equivalent	6.06	2018	6.06	-	5.3	Chilean Copper Commission (COCHILCO) statistical yearbook	No

¹ Corresponds to last time of measurement. For indicators associated with disbursement, project end corresponds to the year of the last disbursement, while for other indicators project end will be the time the program completion report is prepared.

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Project end ¹	Means of verification	Disbursement indicator (yes/no)
Specific development objective 3: To promote the recovery and formalization of jobs by supporting micro and small enterprises (MSEs) and incentivizing hiring and labor intermediation, with a particular emphasis on women								
3.1 Number of businesses benefiting from the “Bono de Alivio a MYPE” support payment for MSEs that continue to report sales in the quarter preceding the measurement.	Number	566,774	2021	550,000	515,000	515,000	SII report	Yes
3.2 Number of workers taking up formal employment as a result of the subsidy mechanism established in MTPS Decree 28/2011 and enhanced by the “IFE Laboral” who remain in their new job for at least two months.	Number	46,769	2021	144,641	-	144,641	SENCE report	Yes
3.3 Number of businesses benefiting from the “Bono de Alivio a MYPE” support payment for MSEs that continue to report sales in the quarter preceding the measurement whose owners are registered as female.	Number	150,086	2021	140,000	130,000	130,000	SII report	No
3.4 Number of workers taking up formal employment as a result of the subsidy mechanism established in MTPS Decree 28/2011 and enhanced by the “IFE laboral” who remain in their new job for at least two months (women).	Number	18,708	2021	60,749	-	60,749	SENCE report	No
3.5 Percentage of Municipal Employment Information Offices (OMILs) with standard agreements with SENCE that receive incentives for exceeding the annual placement target.	Percentage	10	2021	12	15	15	OMIL accountability to SENCE	No

DISBURSEMENT INDICATORS MATRIX

Indicator	Baseline (Year)	Year 1		Year 2		Project end	
		Target	Associated amount (US\$ millions)	Target	Associated amount (US\$ millions)	Target	Associated amount (US\$ millions)
Component I: Digital transformation							
1.1 Number of mobile broadband lines per 100 inhabitants.	96.1 (2019)	-	0	110	45	110	45
Component II: Circular economy							
2.1 Number of municipio or municipio association projects awarded funding from the Recycling Fund of the Ministry of the Environment.	13 (2019)	-	0	55	5	55	5
Component III: Support to MSEs and the labor force							
3.1 Number of businesses benefiting from the “Bono de Alivio a MYPE” support payment for MSEs that continue to report sales in the quarter preceding the measurement.	566,774 (2021)	550,000	150	515,000	50	515,000	200
3.2 Number of workers taking up formal employment as a result of the “IFE Laboral” enhanced subsidy mechanism who remain in their new job for at least two months.	46,769 (2021)	144,641	50	-	0	144,641	50
Total			200		100		300

DISBURSEMENT INDICATOR VERIFICATION PROTOCOL

Indicator	Estimation methodology/definition	Means of verification	Verifying entity	Verification protocol
Component I: Digital transformation				
Indicator 1.1	Division of number of broadband lines reported by SUBTEL by the number of inhabitants according to the official census, multiplied by 100.	SUBTEL report, census	Verifying consultant or firm	The verifying entity will review the source of information used to construct the indicator.
Component II: Circular economy				
Indicator 2.1	Number of municipio or municipio association projects awarded funding from the Recycling Fund of the Ministry of the Environment in 2020, 2021, and 2022.	MMA report with the award documentation	Verifying consultant or firm	The verifying entity will verify the documents substantiating the award to each project and make random field visits to a subsample of municipios or associations of municipios.
Component III: Support to MSEs and the labor force				
Indicator 3.1	Businesses benefiting from the “Bono de Alivio a MYPE” support payment for MSEs that report sales in the quarter prior to the reporting month.	SII report	Verifying consultant or firm	The SII will give the verifying entity access to the database at the SII’s secure premises (databases of beneficiaries and businesses with monthly sales), to verify that they reported sales in the quarter in question.
Indicator 3.2	Workers who remain in work at least two months after the start of the subsidy.	SENCE report	Verifying consultant or firm	The verifying entity will review the eligibility criteria applied for the approval of applications for the “IFE Laboral” subsidy and will ask a random sample of workers of both sexes to verify that they have received the benefit for at least two months.

Country: Chile

Division: SCL/LMK

Operation No.: CH-L1166

Year: 2021

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Ministry of Finance, through the Budget Directorate (DIPRES)

Operation name: Digital Transformation and Sustainable Growth Program

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the operation. (Any system or subsystem that is subsequently approved may be applicable to the operation, in accordance with the terms of validation by the Bank)

<input checked="" type="checkbox"/> Budget	<input checked="" type="checkbox"/> Reports	<input checked="" type="checkbox"/> Information system	<input checked="" type="checkbox"/> National Competitive Bidding (NCB)
<input checked="" type="checkbox"/> Treasury	<input checked="" type="checkbox"/> Internal audit	<input checked="" type="checkbox"/> Shopping	<input checked="" type="checkbox"/> Others
<input checked="" type="checkbox"/> Accounting	<input checked="" type="checkbox"/> External control	<input checked="" type="checkbox"/> Individual consultants	

2. Fiduciary execution mechanism

<input checked="" type="checkbox"/>	Coexecuting agencies	The Ministry of Finance, acting through its Budget Directorate (DIPRES), will be the executing agency for the loan based on results (LBR). DIPRES will act as coordinator for the following coexecuting agencies: (a) the Office of the Deputy Secretary for Telecommunications (SUBTEL), under the Ministry of Transportation and Telecommunications; (b) the Office of the Deputy Secretary for the Environment, under the Ministry of the Environment; (c) the Treasury of the Republic (TGR); and (d) the National Training and Employment Service (SENCE). The roles and responsibilities of each will be defined in the program Operating Regulations.
<input checked="" type="checkbox"/>	Special features of fiduciary execution	For operations of this type, the use of country systems and the executing agencies' systems for procurement is planned (document GN-2869-1).

3. Fiduciary capacity

Fiduciary capacity of the executing agency	The executing agency works within the public financial administration system (SAFP), using the government financial management information system (SIGFE) for budgeting, accounting, and payments. It also has an internal audit unit under the oversight of the Office of the Comptroller General of the Republic (CGR). The coexecuting agencies also operate within the SAFP. The Bank has determined that the country systems (i.e., budget, treasury, accounting, government internal audit (CAIGG), and external audit (CGR) systems) are acceptable for use in Bank operations. Chile's country procurement system was approved for use in Bank-financed operations in December 2011. The results of the various evaluations have shown that officials have a high level of expertise in the use of country fiduciary systems.
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	<p>The Institutional Capacity Assessment Platform (ICAP) was applied to the executing agency and the coexecuting agencies, bearing in mind the points already mentioned, confirming their institutional capacity to have a satisfactory level of development. Nevertheless, the following opportunities for improvement were identified: (i) strengthening the executing agency's team as regards monitoring, financial, and institutional aspects so as to ensure correct execution and support to coexecuting agencies; (ii) incorporating protocols for the preparation of financial reports based on the accounting records; (iii) incorporating the following in the program Operating Regulations: a diagram of institutional relations, with the description of the coordination mechanism between the various coexecuting agencies, formal procedures for activities relating to indicator reporting, financial management, and nonstandardized technical activities; and (iv) supporting the strengthening of financial report generating systems (SIGFE), given that execution involves different services and systems.</p>
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4. Fiduciary risks and response to risk

Risk taxonomy	Risk	Level of risk	Risk response
Human resources	If the coexecuting agencies lack personnel trained on Bank standards, there may be delays in report preparation, leading to delays in the disbursement periods envisaged for the loan based on results (LBR).	Medium-high	The Bank will provide technical assistance through technical cooperation and from Bank specialists. Trainings on Bank standards.
Human resources	If the coexecuting agencies' personnel do not have time allocated to this program, there may be delays in report preparation, leading to delays in the disbursement periods envisaged for the LBR.	Medium-high	The Bank will provide technical assistance through technical cooperation and from Bank specialists. Dialogue between DIPRES officials and coexecuting agencies to prioritize personnel time allocated to the program.

5. Policies and guidelines applicable to the operation: Financial Management Guidelines for IDB-financed Projects (document OP-273-12).
6. Exceptions to policies and guidelines: Not applicable.

II. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE LOAN CONTRACT

Exchange rate: For the purposes of Article 4.10 of the General Conditions, the agreed exchange rate will be the rate in effect on the first working day of the month in which the borrower, the executing agency, or any other person or legal entity with delegated authority to incur expenditures makes the respective payments to the contractor, vendor, or beneficiary.

Audited financial statements: Audited financial statements are to be submitted within 120 days following the end of each fiscal year during the disbursement period of the loan. The final report will be submitted within 120 days following the date stipulated for the last disbursement of the loan and will include an analysis of potential differences between actual program costs and the amounts disbursed. The terms of reference must be agreed upon with the Bank and the independent auditors must be acceptable to the Bank.

Financing of results prior to eligibility: The Bank may retroactively recognize, against the loan proceeds, results achieved by the borrower between the project profile approval date (1 October 2021) and the loan eligibility date, up to an amount equal to 15% of the LBR amount (US\$45 million).

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Use of Country Systems	The use of country systems and the executing agencies' systems for procurement is envisaged for operations of this type (document GN-2869-1).
<input checked="" type="checkbox"/>	Special procurement provisions applicable to the operation	The use of country systems and the executing agencies' systems for procurement is envisaged for operations of this type (document GN-2869-1).

IV. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT

<input checked="" type="checkbox"/>	Programming and budget	The budget of the executing agency and coexecuting agencies is part of the public sector budget defined by the Government Financial Administration Act (Legislative Decree 1263/75). The Ministry of Finance, through its Budget Directorate (DIPRES), is responsible for preparing the public sector's budget. Given the interrelated nature of the budget systems, loan operations must be included in the public sector budget to enable access to funds (loan and local contribution), and for this reason use of the budget system is not expected to cause any problems that would impact program execution. Nevertheless, all loan operations must adhere to the expenditure framework of the public sector budget.
<input checked="" type="checkbox"/>	Treasury and disbursement management	Resources from the fiscal contribution will be used for execution. Reimbursements will be managed based on the disbursement matrix, following independent verification of the results achieved. The loan proceeds will be deposited in the dollar-denominated account held by the Treasury of the Republic (TGR) at the Central Bank, provided disbursements are associated with results. Payments arising from execution are made directly by the TGR through the fiscal single account. It must be ensured that the accounting systems enable monitoring of income and expenditures. No initial disbursement is envisaged. The executing agency will not be required to submit supporting documentation for expenses together with disbursement requests, nor will it be required to submit supporting documentation for expenses incurred to achieve the intended results. However, it must keep all such documentation as part of the appropriate administrative, internal audit, procurement, and accounting systems ensuring timely issuance of program financial reports, which will be audited annually.

☒	Accounting, information systems, and reporting	Although the CGR is responsible for public sector accounting and defining the applicable principles and standards, accounting is decentralized (institutions record transactions directly and the CGR consolidates departments' accounts). Transactional units will be given access to SIGFE to record transactions with relevant international organizations. The Treasury coexecuting agency uses its own approved accounting system, which transfers information to SIGFE and the CGR monthly. The chart of accounts is based on the public sector chart of accounts established by the CGR in Resolution 16 of 2015. Each coexecuting agency will prepare the corresponding financial reports, which will be submitted to the executing agency for consolidation and preparation of the financial reports. It must be ensured that the accounting systems enable adequate monitoring of income and expenditures.
☒	Internal oversight and internal audit	The internal oversight system rests on the organizational plan, strategic plans, and procedures, approved by the Government General Internal Audit Board (CAIGG), together with administrative rules on ethics and probity, and Law 20,285 on transparency and access to public information. The internal audit units report directly to each institutions' highest authority. Annual audit plans are drawn up in accordance with the instructions established by the CAIGG. The internal audit units of the executing agency and coexecuting agencies follow up the observations on internal audit made by the program's external auditors and will validate the responses to the auditors' observations.
☒	External control and financial reports	The executing agency will engage auditors acceptable to the Bank, such as the CGR. During the loan disbursement period, the executing agency will deliver the financial statements to the Bank within 120 days following the end of each budgetary period for the executing agency. The financial statements are to be audited in accordance with the terms of reference agreed with the Bank, which may establish specific audit procedures. The last report is to be delivered within 120 days following the date stipulated for the last disbursement of the loan. The executing agency, with the support of the Finance and Administration Unit, will prepare the project financial statements. The final audited financial statements will include an analysis of possible differences between the actual program costs and the sums disbursed.
☒	Financial supervision of the operation	The financial supervision plan will envisage participation in periodic Risk Matrix monitoring sessions and review of the annual audit report, which may lead to on-site visits to update knowledge of the internal institutional systems.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Chile. Loan ___/OC-CH to the Republic of Chile. Digital
Transformation and Sustainable Growth Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Chile, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Digital Transformation and Sustainable Growth Program. Such financing will be for an amount of up to US\$100,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ 2021)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/21

Chile. Loan ____/OC-CH to the Republic of Chile. Digital
Transformation and Sustainable Growth Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Chile, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Digital Transformation and Sustainable Growth Program. Such financing will be for an amount of up to US\$300,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2021)