

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**CHILE**

**PROGRAM TO SUPPORT SOCIAL EQUITY AND FISCAL SUSTAINABILITY II**

**(CH-L1160)**

**LOAN PROPOSAL**

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## CONTENTS

### PROJECT SUMMARY

|      |  |    |
|------|--|----|
| I.   | DESCRIPTION AND RESULTS MONITORING .....             | 1  |
| A.   | Background, problem addressed, and rationale .....   | 1  |
| B.   | Objectives, components, and cost .....               | 11 |
| C.   | Key results indicators .....                         | 14 |
| II.  | FINANCING STRUCTURE AND MAIN RISKS .....             | 15 |
| A.   | Financing instruments .....                          | 15 |
| B.   | Environmental and social risks .....                 | 16 |
| C.   | Fiduciary risks .....                                | 16 |
| D.   | Other risks and key issues.....                      | 16 |
| III. | IMPLEMENTATION AND MANAGEMENT PLAN .....             | 17 |
| A.   | Summary of implementation arrangements .....         | 17 |
| B.   | Summary of arrangements for monitoring results ..... | 17 |
| IV.  | POLICY LETTER .....                                  | 17 |

## APPENDICES

Proposed resolution

| ANNEXES   |  |
|-----------|--|
| Annex I   | Summary Development Effectiveness Matrix |
| Annex II  | Policy Matrix                            |
| Annex III | Results Matrix                           |

| REQUIRED LINKS |  |
|----------------|--|
| 1.             | <a href="#">Policy letter</a>                  |
| 2.             | <a href="#">Means of verification matrix</a>   |
| 3.             | <a href="#">Monitoring and evaluation plan</a> |

| OPTIONAL LINKS |  |
|----------------|--|
| 1.             | <a href="#">Comparative matrix</a>                     |
| 2.             | <a href="#">Pension reform: Proposal and evolution</a> |
| 3.             | <a href="#">Details of challenges and gaps</a>         |

## ABBREVIATIONS

|              |  |
|--------------|--|
| CASEN        | Caracterización Socioeconómica Nacional [National Socioeconomic Survey]  |
| CENABAST     | Central de Abastecimiento del Sistema Nacional de Servicios de Salud [National Health Services System Supply Center] |
| COVID-19     | Coronavirus disease 2019   |
| DCCP         | Dirección de Compras y Contratación Pública [Public Procurement and Contracting Office]                              |
| DIA          | Development in the Americas  |
| DIPRES       | Dirección de Presupuestos [Budget Office]  |
| GDP          | Gross domestic product   |
| IMF          | International Monetary Fund  |
| INE          | National Statistics Institute  |
| LIBOR        | London Interbank Offered Rate  |
| LIS          | Labor intermediation system  |
| MDSF         | Ministry of Social Development and the Family  |
| MINSAL       | Ministry of Health   |
| MTPS         | Ministry of Labor and Social Security  |
| OECD         | Organisation for Economic Co-operation and Development   |
| OMIL         | Municipal employment information offices   |
| PAHO         | Pan American Health Organization   |
| PLAC Network | Network for Pensions in Latin America and the Caribbean  |
| SENCE        | Servicio Nacional de Capacitación y Empleo [National Training and Employment Service]                                |
| SIO          | Sistema de Información Observatorio [Information System Observatory]   |
| WHO          | World Health Organization  |

**PROJECT SUMMARY**  
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| Financial Terms and Conditions   |  |     |  |  |
|--|--|-----|--|--|
| Borrower   |  |     | Flexible Financing Facility <sup>(a)</sup>                             |  |
| Republic of Chile  |  |     | Amortization period:   | 13.5 years                             |
| Executing agency   |  |     | Disbursement period:   | 2 years                                |
| The borrower, through the Ministry of Finance, via the Budget Office   |  |     | Grace period:  | 4 years <sup>(b)</sup>                 |
| Source   | Amount (US\$)  | %   | Interest rate:   | LIBOR-based                            |
| IDB (Ordinary Capital):  | 500,000,000  | 100 | Credit fee:  | <sup>(c)</sup>                         |
|  |  |     | Inspection and supervision fee:  | <sup>(c)</sup>                         |
|  |  |     | Weighted average life:   | 8.7 years                              |
| Total:   | 500,000,000  | 100 | Approval currency:   | United States dollar                   |
| Project at a Glance  |  |     |  |  |
| <p><b>Project objective/description:</b> The general objective of the programmatic series is to improve social equity with fiscal sustainability in Chile. The specific objectives are to: (i) raise the incomes of the most vulnerable; (ii) improve the adequacy of the solidarity pension system under Law 20,255 and the contributory pension system under Decree-Law 3,500; (iii) expand access to lower-cost medications; and (iv) make public spending more efficient and improve the quality of the budget-formulation process.</p> <p>This operation is the second of a programmatic policy-based loan series consisting of two contractually independent but technically linked loans.</p> |  |     |  |  |
| <p><b>Special contractual conditions precedent to the first and only disbursement of the financing:</b> The sole disbursement is contingent upon fulfillment of the policy reform conditions as established in the Policy Matrix (Annex II) and the <a href="#">Policy Letter</a>, and the other conditions established in the corresponding loan contract (paragraph 3.3).</p>  |  |     |  |  |
| <p><b>Exceptions to Bank policies:</b> None.</p>   |  |     |  |  |
| Strategic Alignment  |  |     |  |  |
| <b>Challenges:</b> <sup>(d)</sup>  | SI <input checked="" type="checkbox"/>                                 |     | PI <input type="checkbox"/>  | EI <input type="checkbox"/>            |
| <b>Crosscutting themes:</b> <sup>(e)</sup>   | GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/> |     | CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/> | IC <input checked="" type="checkbox"/> |

<sup>(a)</sup> 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 conversions, and disaster protection. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> 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.

<sup>(c)</sup> The credit fee and the inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

<sup>(d)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(e)</sup> 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 This operation is the second of two operations in a series of programmatic policy-based loans. The series was started in 2020 (loan 5059/OC-CH, for US\$300,000,000) and was agreed upon with the Government of Chile, as support for structural measures designed to improve social equity and strengthen fiscal sustainability in the context of the social crisis and the beginning of the COVID-19 pandemic. To that end, measures were designed and implemented to: (i) raise the incomes of the most vulnerable and improve the solidarity and contributory pension systems; (ii) expand access to low-cost medications; and (iii) improve the quality of public spending. The outcomes of the first operation have been highly significant, and specific improvements can already be seen in various aspects of the different loan components (paragraphs 1.7, 1.13, 1.18, and 1.23).
- 1.2 This operation continues the support for the reforms started under the first programmatic loan (5059/OC-CH) approved and disbursed in 2020, including support for the incomes of vulnerable persons through the guaranteed minimum income; for the basic solidarity pension system; for reducing the price of medications through coordinated procurement; and institutional and methodological strengthening of the evaluation of public spending. This second operation seeks to consolidate the reforms that Chile has adopted to help improve social equity and guarantee fiscal sustainability in a nearly unprecedented crisis situation.
- 1.3 **Macroeconomic context.** In 2018, Chile achieved an annual per capita income, adjusted for purchasing power parity, of US\$25,283, one of the highest in Latin America and the Caribbean. However, the social crisis in late 2019 and the public health and economic crisis caused by the COVID-19 pandemic adversely affected the economy. In 2019, the gross domestic product (GDP) grew 1.1%, compared to the 2.6% increase that had been forecast until before the social protests,<sup>1</sup> and in 2020 it fell 5.8%.<sup>2</sup> For 2021, the Public Finance Report for the first quarter of 2021 forecasts growth of 6%, subject to the progress made on vaccination and controlling the pandemic.<sup>3</sup> To address the social and COVID-19 crises, the government increased public spending. Together with the decline in economic activity, this led to an effective fiscal deficit of 7.3% in 2020, expected to shrink to 3.8% in 2021. Furthermore, these two shocks to the economy are expected to lead to an increase in the central government's gross public debt of 39.5% of GDP in 2025, up from 27% before the social crisis.<sup>4, 5</sup>
- 1.4 The government responded to the social crisis by agreeing on a process to review the political constitution, currently under way, and by developing a social agenda to, in the short term, increase basic pensions, raise the incomes of vulnerable families, decrease the cost of medications, and control energy and

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<sup>1</sup> Consensus Forecast (October 2019).

<sup>2</sup> Central Bank, Monetary Policy Report, Q1 2021.

<sup>3</sup> The International Monetary Fund (IMF) forecasts growth of 6.5%, while the Central Bank estimates a range of 6% to 7% for 2021.

<sup>4</sup> Budget Office (DIPRES), Public Finance Report Q1 2021.

<sup>5</sup> Ministry of Finance, Statistics Report on Public Debt as of 30 September 2019.

public transportation price hikes. The medium-term goal was to reach an agreement to improve the coverage, adequacy, and sustainability of all pensions, as well as to reform the health system. The pandemic made it imperative to focus efforts on avoiding the collapse of the health system and on providing aid to individuals, companies, and local governments to combat the decline in income and prevent further economic impacts. Efforts were redoubled to reallocate public spending to the priorities resulting from the pandemic and to find savings in the provision of public services. After the first COVID-19 wave, the government focused its efforts on procuring vaccines and reviving the economy, trying to prevent new outbreaks of the virus. Even so, the rising number of cases and intensive care unit bed occupancy in March 2021 led the government to tighten its health measures. By late April 2021, Chile had managed to fully vaccinate over 42% of the target population (15.2 million), with both doses ([National Vaccination Plan](#)).

- 1.5 **Social context and agenda.** One year after the pandemic began, the unemployment rate in Chile<sup>6</sup> is 10.4%, almost one million people—higher than the prepandemic rate (7.9%) but lower than the maximum recorded in 2020 (12.9% in June-August). This rise is explained by the increase in jobless individuals (17.4%), lower workforce participation (-6.9%), and reduced employment (-8.9%). For women, the unemployment rate is 11% (for men, it is 9.9%), and the participation rate is 46.1% (69% for men), still below prepandemic levels (maximum of 49.5% in 2018), fundamentally due to the productive sectors in which women work (trade, services) and to the greater burden of housework and caregiving tasks that they bear.
- 1.6 The pandemic has magnified the challenge of improving social equity in Chile. On 15 March 2020, the government suspended classes for all educational levels. This had an immediate impact on the labor market of workers with minor dependents. On 25 March that same year, the first total quarantine was announced in seven *comunas* of the country's metropolitan region. These measures were gradually extended to the entire metropolitan region and then to most of the country's *comunas*, leading to the immediate need for income support for vulnerable workers and households.<sup>7</sup>
- 1.7 Chile deployed and expanded its social protection and unemployment instruments to address the health and economic emergency. The social household registry made it possible to deliver the single income-support transfer payment in December 2019. In view of the health emergency, the registration process for new households was simplified, and an indicator was created to measure temporary vulnerability during the pandemic. The first emergency family income payment was made in May 2020 and went to 90% of vulnerable households. However, due to the magnitude of the crisis, middle-class households also needed income support. In August 2020, a payment was approved for households earning over

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<sup>6</sup> [National Statistics Institute](#) (INE), 2021.

<sup>7</sup> Vulnerability in Chile is defined by the social household registry, which uses data on households and information from administrative databases to classify each household into an income or socioeconomic vulnerability bracket, and based on that classification, determine eligibility for social programs. The government also created the emergency socioeconomic indicator, to learn about families' socioeconomic circumstances during the pandemic.

Ch\$400,000 (in 2019) whose current monthly income was 30% below their average 2019 levels, or that were covered by the Employment Protection Act (LPE) approved in April 2020, among other conditions. The guaranteed minimum income, approved under the first operation, is also helping to raise the incomes of lower-income workers. From May 2020 to February 2021, it benefited over 600,000 workers, 58% of them women.<sup>8</sup>

- 1.8 Chile has an [unemployment insurance](#) that combines a solidarity fund with individual contribution accounts that workers can access if they lose their jobs and have already made a certain number of contributions. Under the LPE, these unemployment funds may be used to prevent job loss and to sustain income through the “suspension” and “reduced work day” modalities. This made it possible to provide support for companies and workers to address the health emergency. The support was paid for with existing resources.
- 1.9 As the pandemic progressed, its differential impact on women became apparent.<sup>9</sup> Working women in Chile were disproportionately affected by the school closings, the burden of housework, and their greater presence in the trade and services sectors. Women whose paid maternity leave (around 7,500 per month) was ending were especially affected. The government promoted amendments to the LPE that extended the length of paid maternity leave as a work suspension charged to unemployment insurance, provided support for workers with children under two through a transfer payment for childcare, and incorporated workers (mostly women) into this benefit.
- 1.10 To support companies and workers, the government modified a subsidy program to promote the return of suspended workers through the LPE (the *Regresa* [Return] subsidy), encourage the hiring of new workers (the *Contrata* [Hire] subsidy), and support parents with children under two with a childcare allowance. The *Regresa* and *Contrata* subsidy amounts are higher for women of all ages and other prioritized groups.
- 1.11 The government also made progress on reforming and strengthening its labor intermediation system (LIS) to improve productivity and employability through a coordinated offering of high-quality services for individuals and companies ([National Labor Intermediation Policy, 2019](#)). The LIS was improved by linking its digital portal (the national job exchange) with the municipal employment information offices (OMIL), which are located throughout the country and mostly serve vulnerable workers. The first operation in this series supported improvement of the OMIL system for serving job seekers, through creation of a management module and approval of a national job exchange user manual for the OMIL. The pandemic accelerated the government’s digital transformation and consolidated efforts to improve OMIL networking and expand the offering of online services. The National Training and Employment Service (SENCE) upgraded its career counseling and job search platforms, and provided training and delivered tools to the OMIL for improving virtual career counseling. The national job exchange made improvements to its operations and incorporated new services like

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<sup>8</sup> [Ministry of Social Development and the Family](#) (MDSF), 2021.

<sup>9</sup> [INE](#), 2021.



single-password access, and offered scholarships for preparing resumes and participating in specialized, online career counseling.

- 1.12 The social security system's small pensions and institutional weaknesses were one of the factors underlying the 2019 social crisis. The pension funds acted as an income-support mechanism, mitigating the impact of the crisis in the short term. In this complex political context, the government approved the possibility of enrollees withdrawing some of the funds accumulated in their individual accounts with the pension fund administrators. More than 10.5 million enrollees and/or pensioners took out some of their funds, for a total withdrawal of 13.5% of GDP. The average withdrawal was Ch\$2.5 million per person (around US\$3,300, 33.9% of the account balance). After a second approved withdrawal, 28.3% of enrollees were left without funds ([Superintendency of Pensions, 2021](#)). Notably, these measures exacerbated the challenge of ensuring the medium-term sustainability of the social security system.
- 1.13 The policy measures supported by the first operation in the programmatic series (increase in the basic solidarity pension and supplementary social security contribution) have significantly offset the impact of these withdrawals on the level of current and future pensions for the most vulnerable population. Without these measures, the withdrawals would have led to a 16% reduction in the average pension. However, thanks to the existence of the solidarity pillar, the estimated net decline is only 5%. This State contribution is equivalent to between 0.05% and 0.12% of annual GDP or 3.5% of GDP, in net present value ([IMF, 2021](#)).
- 1.14 In 2020, the government sent the National Congress proposed amendments to the original draft pension reform law to: (i) expand the solidarity pillar coverage from 60% to 80% of the poorest population, and increase the pension amounts (with respect to the 2019 increases, supported by the first operation); and (ii) improve contributory pensions under Decree-Law 3,500 as amended through a six-point increase in contributions and the creation of the Solidarity Group Savings Program, to be financed with part of this new contribution, as well as measures to enhance the system's competitiveness and pension fund administrators' operation ([optional link 2](#)). Transparency measures and service improvements were also incorporated, with the pension fund administrators bearing the cost.
- 1.15 **Health context and agenda.** Since March 2020, the government has implemented various measures to address the health emergency. Among emerging economies, Chile is the country that has dedicated the third-largest amount of funds to health during the pandemic, around 1% of GDP ([DIPRES, 2021](#)). The health budget for 2021 was expanded by 8.9% compared to 2020,<sup>10</sup> to finance increased consultations, employ new specialists, and continue the execution of hospital infrastructure projects. To address the health care needs that were put off because of the COVID-19 emergency, the country established a contingent fund for COVID-19 vaccines (Ch\$153,140,000,000, some US\$219 million), and a fund for faster resolution of health care waiting lists (Ch\$114,855,000,000, some US\$153 million).

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<sup>10</sup> [Budget](#) of Chile, 2021.

- 1.16 Medications are the main out-of-pocket health expense. All told, 40% of outpatient medications are purchased by individuals at private retail establishments. Three large pharmacy chains hold 80% of the market. The pharmacies' margins have been estimated to be around 40%, and the laboratories', near 50%.<sup>11</sup> Only 20% of spending on these types of medication is covered by public insurance (Atal, 2021). On average, in family units that allocate resources to medications, their spending on medications accounts for 55.3% of their out-of-pocket health costs and 4.2% of total household spending. For households, the expenditure is also regressive, since it accounts for a higher percentage of total spending and out-of-pocket health spending in low-income families ([Hernando et al., 2019](#)).
- 1.17 In general, households that spend more on medications are larger, and in addition to including more elderly adults, they typically comprise more women. The prevalence of medication use (percentage of the population that uses at least one medication) is 58%. This figure is higher for women (68.2% versus 47% for men). On average, each person uses 1.9 medications, and women use more than men (2.3 versus 1.5).
- 1.18 During the social crisis in 2019, one of the primary citizen demands was for lower-cost medications. The most significant recent regulation has been bioequivalence, the certification of therapeutic equivalence that allows two or more products to be used interchangeably. Most of the Ministry of Health (MINSAL) [national medication policy](#) measures are aimed at establishing regulatory frameworks and implementation mechanisms that will make it possible to put more bioequivalent products on the market and thereby provide users with lower-cost options. The promulgation of Law 21,198, included in the first operation of the programmatic series, allowed the National Health Services System Supply Center (CENABAST) to broker the procurement of medications for private pharmacies. From the time the law took effect until December 2020, 158 products, including those with the highest demand, have been distributed through this mechanism—in all, over 2 million medication units dispensed through pharmacies that signed the agreement with CENABAST. This law allows CENABAST, through an ad hoc Advisory Council, to determine the maximum retail sales price that pharmacies can charge for products procured through the Center. The formation of this council, supported by the first operation in the programmatic series, made it possible to develop the methodology for setting the maximum prices. In the second half of 2020, various establishments began to receive a supply of products. Calculating the value of this volume of sales at average retail pharmacy prices and comparing it to the maximum sale prices established by CENABAST shows that people spent an estimated 61% less when purchasing their medications at the pharmacies with CENABAST agreements. The cohort of pharmacies that signed an agreement with CENABAST in March 2020 was made up of only 28 establishments. Now, 582 pharmacies are registered, and for 280 of them, the agreement was signed less than one year after the law took effect. In 2020, CENABAST fulfilled approximately 90% of its distribution commitments for pharmacies that have adhered to Law 21,198. Compared to 2019, the Supply

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<sup>11</sup> *Fiscalía Nacional Económica* [Antitrust Commission], 2020. Market Study on Medications. Market Studies Division. Santiago, Chile; Atal, J. P. (2021). Brief 22: Access to Medications in Chile and the Role of Municipal Pharmacies. Inter-American Development Bank.

Center's volume of operations increased 38%, equivalent to US\$350 million more transacted in medications and medical supplies. In 2020, brokerage transactions with private pharmacies accounted for one third of the Center's operations ([CENABAST, 2021](#)).

- 1.19 In addition to the measures summarized above, the government conducted a six-month outreach campaign focused on patients, so that they would call for the sale of bioequivalent generics and the use of the international nonproprietary name in prescriptions. The challenge has been to find mechanisms that likewise target medication prescribers and dispensers. MINSAL Decree 58/2020 incorporated considerations on the electronic sale of medications, including the obligation to allow the interchangeable use of bioequivalent products. Furthermore, the government promulgated Law 21,267 of 2020, which makes it legal to use images of prescriptions, a milestone that will help the country move forward towards a national system for electronic prescriptions. The national pharmaceutical essential drug list was updated in 2020, with the aim of improving access to medications. The list of the active ingredients considered essential and that must be on hand at any pharmacy was extended to include 239 pharmaceutical products, of which 95 were bioequivalent remedies (a 20% increase).
- 1.20 Implementation of these actions requires systems that will introduce regulatory elements; promote the use of international nonproprietary names in prescriptions, by presenting it as the first option for medication prescribers, dispensers, and patients; inform the prescriber of all the available commercial options; and allow the authorities to enforce these measures, which are included in this second programmatic operation.
- 1.21 **Fiscal agenda. Improved quality of public spending.** As a result of the pandemic-induced cessation of activity, tax revenues fell 8.4% in 2020, and public investment, 9.2%, due to delays in works resulting from the lockdown measures. However, the magnitude of the government response has been proportional to the challenge of the pandemic.<sup>12</sup> The total cost of the first and second emergency plan measures, plus the creation of the COVID-19 Temporary Emergency Fund, reached US\$30 billion, 12% of GDP. In 2020, this translated into a significant, 14.4% increase in current expenditure. In formulating this important response to the economic crisis, the government respected the principle of fiscal sustainability and the macroeconomic management framework. Expenditure is expected to increase by 9.2% in 2021, and the fiscal stimulus to be gradually tapered in 2022 as vaccine coverage improves and economic activity recovers, with the country moving towards its structural deficit objectives in 2023.<sup>13</sup> The structural deficit objective is expected to be reduced by one GDP point annually, until it reaches 0.9% of GDP in 2025. In the medium term, there will be additional pressures on expenditure stemming from social demands, the implications of the social security reforms, and the need to increase reserves.

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<sup>12</sup> Exemplified in the nearly 30 laws and 50 measures with programs and extraordinary resources, developed out of the Ministry of Finance (DIPRES, 2021, Public Finance Report Q4 2020).

<sup>13</sup> DIPRES Public Finance Report Q1 2021.

- 1.22 The measures adopted to address the demands stemming from the social upheaval and the COVID-19 pandemic drove public spending up from 23.7% to 27.2% of GDP between 2018 and 2020 (IMF, 2021). This included increases in subsidies (from 8.4% to 11% of GDP in the same period) and in social benefits (from 4% to 4.3%). Despite this improvement, among the Organisation for Economic Co-operation and Development (OECD) countries, Chile remains in the bottom decile for spending as a percentage of output (OECD, 2019). In 2015, compared with its per capita income, Chile spent less than comparable countries with similar revenues.<sup>14</sup> Beyond the amount, the government has paid special attention to the technical and allocative efficiency of this spending. In terms of technical efficiency, Chile is the country in Latin America and the Caribbean with the fewest inefficiencies in spending on transfers, wages, and public procurement, but these expenses still represent approximately 1.8% of GDP (IDB, 2018). In terms of allocative efficiency, the results of 16 ex post evaluations of government programs<sup>15</sup> in 2020 showed that no program achieved a good performance rating, 62.5% were considered to have low or poor performance, and 37.5% obtained an average performance rating. In aspects related to budget formulation, Chile's recognized strength<sup>16</sup> led to a reform-free period in which the progress made on evaluation was not reflected in the expenditure item allocation processes.<sup>17</sup> Efforts to improve transparency, accountability, and citizen participation on public spending should be maintained,<sup>18</sup> especially since the important package of fiscal measures designed to address the pandemic emergency and aid economic recovery call for additional citizen auditing procedures. This institutional gap is reflected in Chile's score of 9 points out of 100 on the citizen participation dimension of the Open Budget Index (2019), below the regional and OECD averages. Chile also needs to improve accountability for efforts made on the execution of infrastructure projects that help address the challenges of climate change, and to expand the availability of budget information.
- 1.23 The government has implemented measures to ensure that the ambitious fiscal stimulus is accompanied by improvements in the quality of public spending, as reflected in the first operation of this programmatic series. This has been coordinated through more intense interaction with the National Congress and civil society, including the creation of the Public Spending Committee, many of whose recommendations have been incorporated into the budget formulation process, including the development of specific spending mechanisms (like the COVID-19 Temporary Emergency Fund), with stricter monitoring and transparency requirements. The institutionalization of spending reviews and the efforts made to ensure that their results are applied made it possible to reallocate US\$2.27 billion of the budget to citizen priorities in the 2021 budget. The government's efforts to improve the centralized management of payments could yield savings of around US\$120 million per year, as well as a 67% reduction in the time it takes to pay

<sup>14</sup> Izquierdo, A.; Pessino, C., and Vuletin, G. (2018). Better Spending for Better Lives. IDB. DIA.

<sup>15</sup> Including targeted evaluations on specific program performance spheres.

<sup>16</sup> Kaufman, J.; Sanginés, M.; and García M. (2015). Building Effective Governments. IDB.

<sup>17</sup> OECD (2019), [Budgeting and Public Expenditures in OECD Countries 2019](#), OECD Publishing, Paris.

<sup>18</sup> Public Spending Committee Final Report. 2021. Chile

State suppliers.<sup>19</sup> Likewise, the deepening of the reforms to digitalize the ChileCompra public procurement platforms will provide estimated annual savings of at least US\$290 million. In compliance with the objectives of the first operation of this programmatic series, the government supported the strengthening of price-setting processes in public procurement with the creation of the Business Intelligence and Studies Division at the Public Procurement and Contracting Office (DCCP), and has furthered implementation of the streamlined purchasing and coordinated purchasing modalities, which help aggregate demand and give rise to efficiency<sup>20</sup> and savings.<sup>21</sup>

- 1.24 **Pending challenges and gaps.** Once this programmatic series is completed, it will be necessary to bolster the policies targeting job recovery in the short and medium terms, further shrink labor market gender gaps, and maintain job training and placement efforts. In pensions, parametric adjustments to the contributory system, continued adaptation to the aging population, and increased contributions will be required in the medium term. To reduce out-of-pocket spending on medications, improvements to the centralized procurement mechanism, methodologies for setting maximum prices, and the effective use of recently implemented digital systems will be required. Lastly, to maintain efforts to improve the quality of public spending, the gradual tapering of the temporary fiscal stimulus measures, strengthening of the fiscal rule, deepening of the spending review system, and efficiency savings through digital innovation will be required ([optional link 3](#)).
- 1.25 **Bank experience in the sector and lessons learned.** The Bank has been supporting the Government of Chile with technical-cooperation funding to strengthen job training and placement policies, support the development of pension system reforms and improvements (operation ATN/CF-15495-RG, approved in 2016), and modernize government procurement (operation ATN/AA-16486-RG, approved in 2017). With regard to employment, the Bank's analytical work identified the need to improve coordination among LIS stakeholders, who have influenced the Bank's work. The Program to Strengthen the Labor Intermediation System in Chile (loan 4098/OC-CH of 2017) provided support for approval of a national labor intermediation policy, to coordinate the employment guidance, training, and placement efforts by various public-sector stakeholders. The Component 2 measures of this second operation, aimed at improving the system for serving job seekers, further these reforms, by promoting the provision of services through digital channels. In pensions, the IDB has financed studies on the design of the pension reforms meant to improve the system's social equity, adequacy, and sustainability, as well as on measuring their fiscal impact. Of note are the positive effects of noncontributory pensions on reducing old-age poverty. This information, together with the dialogue and support through the Network for Pensions in Latin America and the Caribbean (PLAC Network), is reflected in the support for increasing

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<sup>19</sup> DIPRES. February 2020. State supplier payment timeline reduced from 51 to 17 days, a 67% improvement; 1.2 million invoices processed, for the equivalent of US\$3.6 billion.

<sup>20</sup> Ministry of Finance report: Progress and fulfillment of streamlined purchasing 2020. 142,087 transactions for Ch\$81 million.

<sup>21</sup> ChileCompra. 2020 management data. Savings of 33% in coordinated procurement modality, equivalent to US\$21 million.



solidarity pensions (Component 3 hereof). The PLAC Network (ATN/OC-16485-RG approved in 2017) promotes access to information and the use of actuarial models, which will make it possible to report on the details of the DIPRES actuarial model and facilitate an assessment of current and future pension coverage.

- 1.26 In health, the Bank is supporting pharmaceutical policies to lower medication prices and strategies to promote the use of bioequivalents through [CRITERIA](#) (operation ATN/OC-17994-RG approved in 2020). The Bank supported the formulation of the Master Plan for Pharmaceutical Policy in the Dominican Republic (operation ATN/OC-14616-DR, approved in 2014), which showed the importance of simultaneously implementing medication supply and demand measures. It also supported Colombia's development of a rational use policy for medications (operation ATN/OC-15119-CO, approved in 2015), which showed the importance of combining measures aimed at medication prescribers, marketers, and consumers. The operation Support for Reform of the General Social Security Health Care System in Colombia (loan 2952/OC-CO of 2013) bolstered medication price controls through prescription monitoring actions. This approach was incorporated into Component 4 hereof, combining actions to improve the operational efficiency of provision with price-monitoring.
- 1.27 In Chile's fiscal sphere, the IDB has supported reforms in the digitalization of public financial management, and in particular, in the centralized payment system through the recent, successful experiences in Brazil (PROFISCO program). The Bank's experience in reengineering public expenditure in Mexico, through the Public Finance Strengthening Program II (loan 3676/OC-ME of 2016), which led to savings of around 0.7% of GDP in 2016, has fostered implementation of adjusted zero-based budgeting. The knowledge contributed by the DIA-2018 Better Spending for Better Lives, aligned with international best practices, has supported the government's efforts to improve spending review methodologies and processes and incorporate them into budget formulation. In Ecuador, the IDB is supporting institutionalization of public spending reviews (Program to Support Improved Fiscal Management and Productive Development, loan 4825/OC-EC of 2019). In the area of public procurement, the Bank supported the Public Procurement and Contracting Office with the technical cooperation operation Business Platform for the Public Procurement Market in Chile (operation ATN/ME-12663-CH, approved in 2011), the data from which are found on [Analiza.cl](#) and make it possible to apply data science, artificial intelligence, and machine learning to set prices and other parameters. Regionally, in El Salvador (Fiscal Strengthening for Inclusive Growth II, loan 4807/OC-ES of 2019), the Bank supported a condition backing the digitalization of public procurement processes that is also included in Component 5 hereof.
- 1.28 **Complementarity with other Bank operations.** The complementarity of Bank operations emphasizes the comprehensive, high-value support offered to the country with medium-term structural reforms. This operation is complemented with the Program to Support Strengthening of Chile's Integrity and Transparency Systems, currently being processed, which reinforces public spending transparency improvements through additional measures. The Program to Support the Fair, Clean, and Sustainable Energy Transition in Chile, in preparation, complements this operation by supporting access to energy for vulnerable persons and strengthening citizen participation in energy innovation. Furthermore,

- technical cooperation operation ATN/OC-18383-CH supports this operation in improving public spending review methodologies and budget-formulation processes. This support will make it possible to bolster the technical dialogue with authorities and different stakeholders involved in implementing the social security and tax reforms.
- 1.29 **Coordination with other multilateral organizations.** The IMF approved a US\$23.93 billion flexible credit line for Chile, which has served as a valuable financial buffer and has boosted market confidence. The OECD has supported the Ministry of Finance with technical assistance on reviewing tax expenditure. The Pan American Health Organization (PAHO) has provided Chile with technical assistance on medication price-setting and regulation methodologies. The Bank has been working in coordination with PAHO on digital health considerations applicable to the new electronic prescription system. With support from the World Bank, SENCE conducted a survey to learn about the OMIL's challenges and opportunities in 2020, to foster job recovery.
- 1.30 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2), and is strategically aligned with the development challenge of social inclusion and equality, through the reduction of old-age poverty and access to health services (less expensive medications). The program is also aligned with the following crosscutting areas: (i) gender equity, by enhancing gender equity in the solidarity pension system and through measures targeting job protection for women with children under two and job recovery, through gender-based subsidies; (ii) climate change, through the incorporation of circular economy principles into the proposed Public Procurement Modernization Act and the improvements in spending transparency reflected in the Report on the Allocation and Environmental Impact of Green Bonds, including information on the financed projects and their environmental impact. In accordance with the [multilateral banks' joint methodology for climate finance](#), an estimated 6.25% of the IDB financing results in climate change mitigation—policy actions 6.2.1 (ii) and 9.2.2 (i). These funds contribute to the IDB's climate financing target of 30% of the volume of annual approvals; and (iii) institutional capacity and the rule of law, through the strengthening of institutional capacity and techniques for managing public expenditure, by supporting measures to improve the quality and prioritization of public spending and budget structuring based on transparent objectives that can be evaluated.
- 1.31 The program is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), by providing support for improving the quality of public expenditure. It is consistent with the Labor Sector Framework Document (document GN-2741-9), which highlights the need to improve social security coverage to reduce the risk of poverty in old age; the Health and Nutrition Sector Framework Document (document GN-2735-9), which pursues financial protection through efficient health spending; and the Fiscal Policy and Management Sector Framework Document (document GN-2831-8), which underscores the importance of institution-strengthening for improving the quality of public spending; the Gender and Diversity Sector Framework Document (document GN-2800-8), by supporting measures promoting gender equality and women's empowerment; and the Climate Change Sector Framework Document (document GN-2835-8), by promoting sustainable public investment and the

adoption of circular economy principles in public procurement. The operation is aligned with the IDB Group Country Strategy with Chile 2019-2022 (document GN-2946), in the strategic objectives: (i) improve the health of the Chilean people; (ii) increase pensions sustainably; and (iii) simplify government procedures for the public. Lastly, the operation has been included in the 2021 Operational Program Report (document GN-3034).

## **B. Objectives, components, and cost**

- 1.32 **Program objective and components.** The general objective of the programmatic series is to improve social equity with fiscal sustainability in Chile. The specific objectives are to: (i) raise the incomes of the most vulnerable; (ii) improve the adequacy of the solidarity pension system under Law 20,255 and the contributory pension system under Decree-Law 3,500; (iii) expand access to lower-cost medications; and (iv) make public spending more efficient and improve the quality of the budget-formulation process.
- 1.33 This second operation in the programmatic series reinforces most of the policy actions identified at the beginning of the series. Original policy action 4.2.1 on the development of technical guidelines for an actuarial tool is merged with original policy action 4.2.3 (paragraph 1.36). Original policy actions 6.2.2 and 6.2.3 are merged and reflect the creation of legislative/executive agencies and agreements for coordinated monitoring and review of public spending (paragraph 1.40). The tentatively defined modifications to the policy conditions do not affect achievement of the objectives of this operation nor of the programmatic series. An in-depth explanation of the modifications to the original indicative policy measures is found in [optional link 1](#).
- 1.34 **Component 1. Macroeconomic stability.** This component seeks to ensure maintenance of a macroeconomic context in line with the program's objectives as set forth in the Policy Matrix and [Policy Letter](#).
- 1.35 **Component 2. Income support for vulnerable workers.** This second operation maintains and expands the indicative measures proposed in the first operation. It supports: (2.2.1) The income-support mechanism for vulnerable households has been strengthened, through the: (i) granting of an emergency family income to households that meet the requirements established in Law 21,230; (ii) establishment of financing with a fiscal contribution to protect the incomes of members of the middle class who meet the requirements established in Law 21,252; and (iii) evaluation of the targeting of the extraordinary payment granted in December 2019 under Law 21,195; (2.2.2) The system for sustaining workers' incomes and recovering their jobs has been strengthened through the: (i) issuing of regulations that authorize and enhance access to unemployment insurance benefits under Law 19,728, in exceptional circumstances; (ii) amendment of Ministry of Labor and Social Security (MTPS) Supreme Decree 28/2011, to include a line of action on allowances for: (a) hiring new workers; (b) the return of workers whose employment contracts had been suspended; and (c) workers who need childcare coverage for children under two; and (iii) analysis of the guaranteed minimum income established in Law 21,218 with regard to the distribution of income of payroll workers; (2.2.3) Coverage and the LIS have been improved through the: (i) approval of the Competitive Funds Program to foster OMIL networking with the objective of expanding job



opportunities; (ii) implementation, in SENCE, of an online career counseling system; and (iii) strengthening of the national job exchange, through the development of new functionalities for workers and companies.

- 1.36 **Component 3. Improvement of the outcomes of the solidarity pension system under Law 20,255 and the contributory pension system under Decree-Law 3,500.** This operation maintains three of the four indicative measures identified in the first operation. It supports: (3.2.1) A study has been performed to analyze the impact of the increases in the basic old-age solidarity pension and the maximum welfare pension on the wellbeing of elderly adults; (4.2.2) The Superintendency of Pensions has improved the information and services offered by pension fund administrators to enrollees, by issuing minimum service quality standards for the pension fund administrators; and (4.2.3) The National Congress has been sent the executive's proposed amendments to the bill that "improves the solidarity and individual contribution system pensions, creates new pension benefits for women and the middle class, creates an unemployment subsidy and insurance, and introduces amendments in the legal texts indicated."
- 1.37 The indicative measure (4.2.1) that supported DIPRES approval of the technical guidelines for developing an actuarial tool has been merged with measure 4.2.3, since the latter is considered to be included within the bill that introduces modifications to the legal texts, including giving the Social Security Advisory Council the power to continually monitor the solidarity and contributory pension systems (Decree-Law 3,500).
- 1.38 **Component 4. Increased availability of lower-cost medications.** This operation maintains the five indicative measures included in the first operation, four of them with minor modifications to their wording, to add detail and specifications. One is expanded: (5.2.1) CENABAST has taken measures to optimize the supply of medications to pharmacies, by: (i) starting the hiring process for an external logistics operator; (ii) modifying the bidding specifications for medications; (5.2.2) The Public Health Institute has implemented the mechanism for oversight of the pharmacies, pharmaceutical warehouses, and nonprofit health centers that have signed agreements with CENABAST; this mechanism will enforce the established maximum price limits referred to in Law 21,198; (5.2.3) The new medication brokerage system established by Law 21,198 has been implemented in more than the first cohort of 28 pharmacies that signed agreements with CENABAST in March 2020; (5.2.4) MINSAL has launched actions to implement a national electronic prescription system, to: (i) promote access to lower-cost medications for the end user, by facilitating the prescription and dispensing of bioequivalents; and (ii) simplify verification of compliance with this regulation for the health authority; the measure that is changed to expand its scope from only publicizing criteria for prescription and dispensing, to establishing regulatory mechanisms that facilitate the exchange of bioequivalents, now reads as follows: (5.2.5) MINSAL has issued decrees that approve bioequivalence of medications certified by medication regulatory agencies with stringent health surveillance, such as the United States Food and Drug Administration, to increase the availability of bioequivalents for the population.

- 1.39 **Component 5. Improved quality of public spending.** This component will support measures to improve the technical and allocative efficiency of public expenditure.
- 1.40 Seven of the conditions are kept, with minor modifications to their wording, and two conditions are merged into one. The measures for the second programmatic operation are: (6.2.1) Transparency, control, and accountability over public spending have improved, through implementation of the Public Spending Committee's recommendations, namely: (i) creation of the "Emergency and Recovery Economic Plan" platform to improve public spending transparency and auditing procedures; (ii) issuing of the Report on the Allocation and Environmental Impact of Green Bonds, as part of the accountability for public investment; and (iii) launch of a fiscal transparency review to improve the availability of budgetary information; (6.2.2) The agreements between the executive branch and the National Congress on improvements to the review and monitoring of public spending have been incorporated through the: (i) issuing of the document "Framework of Understanding for the Emergency Plan for Protecting the Incomes of Families and Economic and Employment Recovery" by the Ministry of Finance and the National Congress with the objective of promoting convergence and fiscal sustainability in the medium term; (ii) inclusion of a provision in Law 21,288 requiring the Ministry of Finance to report to the Special Mixed Budget Committee and the Chamber of Deputies and Senate Finance Committees on the progress of the regular and COVID-19 Temporary Emergency Fund budgets, including consolidated information on execution and the allocated budget; and (iii) inclusion of a provision in the Public Sector Budget Act of 2021 requiring the Ministry of Finance to send the Mixed Budget Committee a list of the investment projects contained in that law; (7.2.1) Progress has been made on incorporating the results of the public spending monitoring and review into the government budget-formulation process through the: (i) inclusion in the Public Sector Budget Act of 2021 of a specific process for integrating the results of program and spending reviews; and (ii) integration of data-gathering processes for monitoring programs by the Ministry of Social Development and the Family (MDSF) and DIPRES; (7.2.2) The public spending review methodologies and monitoring systems have been strengthened through the development of: (i) a methodology for performing sector and crosscutting reviews of spending on the (a) *Apresto Laboral* (Women's Access to the Labor Market) and (b) export-promotion programs; and (ii) a pilot digital data visualization system for the National Investment System, which will improve management and monitoring of public investment at the MDSF; (8.2.1) The adjusted zero-based budgeting methodology has been implemented for formulating the public sector budget for 2021; (9.2.1) The operational efficiency of the procurement of goods and services by public agencies governed by Law 19,886 on the Bases for Administrative Supply and Service Agreements and its regulations, set forth in Ministry of Finance Supreme Decree 821/2020, as amended, has improved, including the expansion of: (i) the use of the streamlined purchasing and coordinated purchasing modalities to promote efficiency and aggregation of demand; and (ii) instruments to promote companies' competitiveness and participation: standard specifications and updating of framework agreements; and (9.2.2) A bill on modernizing the public procurement system (ChileCompra) has been sent to the National Congress, and

its provisions include the: (i) incorporation of circular economy principles; and (ii) strengthening of the digitalization of public procurement processes.

- 1.41 Indicative measures 6.2.2 and 6.2.3 were merged into the new measure 6.2.2, which reflects the coordinated review agencies and legislative/executive agreements for coordinated monitoring and review of public spending. The technical dialogue shows that the two processes have moved forward in parallel, and are therefore reported together. Measure 9.2.2 replaces and reinforces the original indicative measures, since the draft Public Procurement Modernization Act includes progress on public procurement digitalization processes and on the application of technologies to price-setting.
- 1.42 **Beneficiaries.** At the programmatic series level, the beneficiaries will be the residents of Chile. They will benefit from a more equitable society and more efficient public spending. There are several types of beneficiaries. Over 3.7 million households (nearly 9 million people) will benefit from at least one emergency family income payment. The middle-class payment will benefit 1.6 million households. The LPE will benefit over 773,000 workers, of which 40% will be women and 2% will benefit through the *Crianza Protegida* [protected child-rearing] modality; likewise, some 700,000 workers will benefit from the employment subsidies. Component 4 will benefit individuals who purchase medications, especially the 1.8 million households that spend the most on them. Given the potential impact on low-income households of out-of-pocket spending on medications, 1.5 million people from the 440,000 households living in poverty will benefit from these measures, as will the nearly 800,000 people expected to newly fall into poverty as a result of the pandemic. Component 5 will benefit vulnerable groups through reallocation of US\$2.27 billion in the budget to priority spending programs, and savings in public management redirected to social assistance and health programs.

### C. Key results indicators

- 1.43 The Results Matrix (Annex III) identifies the expected outcomes and outputs from implementation of the policy measures promoted for the program as a whole and this second operation. The general objective indicators, specific objective indicators, and their associated targets were not modified for this operation. The indicators for measuring the general objective are: (i) improved income ratio between the 25th and 75th family per capita income distribution percentiles and increase in formal workers' earned income; and (ii) maintenance of the structural balance of public finances through 2023. The indicators for measuring the specific objectives include: (i) improvement in the ratio of income for men (women) in the 25% most vulnerable to the median income for men and women, respectively; and improvement in the ratio of income of formal workers in the 25th and 75th income distribution percentiles, for men and women, respectively; (ii) increase in the median overall replacement rate for men (women) and decrease in the percentage of old-age pensioners with pension incomes below the official poverty line for men and women, respectively; (iii) increase in the savings percentage for private pharmacies using the procurement mechanism and maximum product prices brokered by CENABAST under Law 21,198; increase in the percentage of health centers purchasing the essential basket at lower prices through CENABAST; increase in the number of *comuna* pharmacies that purchase medications through

CENABAST; increase in the amount spent by *comuna* pharmacies on CENABAST-brokered medications; increase in the savings percentage achieved through the purchase of drugs and supplies brokered by CENABAST; and (iv) increase in the percentage of the public budget monitored as part of the budget-formulation process; and increase in efficiency savings in the execution of public procurement processes under the streamlined purchasing modality.

- 1.44 **Economic analysis.** Based on OVE's recommendations made in its 2011 Evaluability Review of Bank Projects<sup>22, 23, 24</sup> and on the results of the review of evaluation practices and standards for policy-based lending conducted by the Evaluation Cooperation Group (made up of the independent evaluation offices of the multilateral development banks),<sup>25</sup> set forth in paragraph 1.3 of document GN-2489-5 (Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non Sovereign Guaranteed Operations), which indicates, among other aspects, that it is not necessary to include an analysis of efficiency in the use of financial resources, it was decided that an economic analysis would not be performed for this type of loan, as reported to the Bank's Board of Executive Directors. Accordingly, this loan operation does not include an economic analysis, and none will be considered for purposes of determining the program's Development Effectiveness Matrix evaluability score.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 **Financial instrument.** This operation has been structured under the programmatic policy-based loan modality and is the second operation of a programmatic series to be comprised of two contractually independent but technically linked loans, in line with the document "Policy-based Loans: Guidelines for Preparation and Implementation" (document CS-3633-2). This programmatic approach was selected to: (i) provide medium-term support to the Government of Chile's reform program and promote a sustained policy dialogue with the authorities; and (ii) facilitate monitoring and provide feedback on the reforms through the findings from execution of the first operation, in a context of high levels of uncertainty due to the pandemic.
- 2.2 **Dimensioning.** This operation is for US\$500 million, to be financed by the Bank with regular Ordinary Capital resources. In line with paragraph 3.27(b) of the aforementioned guidelines (document CS-3633-2), the amount of this operation is justified by the public sector financial requirements, and is not directly related to the costs associated with the program reforms. The amount represents 2.4% of the borrowing authorization approved in the Public Sector Budget Act of 2021 and

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<sup>22</sup> Document RE-397-1: "Currently, [the] Economic Analysis section is computed as the maximum between the [cost-benefit analysis] and the [cost-effectiveness analysis]. Yet neither a [cost-benefit analysis] nor a [cost-effectiveness analysis] is applicable to [policy-based loans]."

<sup>23</sup> Working Group on Public Sector Evaluation, 2012.

<sup>24</sup> According to the Evaluation Cooperation Group, policy-based loans should be evaluated according to their relevance, effectiveness, and sustainability. Efficiency was not included as a criterion, since policy-based loan amounts are tied to the country's financing needs, independent of the project's benefits.

<sup>25</sup> Evaluation Cooperation Group, 2012.

is equivalent to 69.4% of the US\$720 million in IDB financing projected for 2021 through four operations.

**B. Environmental and social risks**

- 2.3 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program does not require an ex ante impact classification. The operation supports the definition of policies, regulations, management instruments, and other institutional strengthening actions, and therefore no significant direct effects on the environment and natural resources are anticipated. Pursuant to paragraph 3.22 of document CS-3633-2, an analysis was performed of the program's effects on poverty, gender equality, and other social considerations. The programmatic series measures aim to reduce poverty and improve gender equality and social equity, and therefore no adverse effects were found.

**C. Fiduciary risks**

- 2.4 No fiduciary risks were identified. Funds for this operation will go directly into the country's single treasury account to cover the federal government's financing needs, for which the executing agency has the necessary financial management instruments and control systems.

**D. Other risks and key issues**

- 2.5 Three risks were identified: the first, involving the economic/financial climate, is classified as medium-high; the second and third, involving the political climate, are classified as high. The first risk is that if, despite the Chilean government's major countercyclical effort (paragraph 1.21), the slowdown of the Chilean economy resulting from the COVID-19 health crisis is prolonged and leads to a drop in workers' salaries, it could endanger fulfillment of the Component 2 outcomes, aimed at increasing vulnerable workers' incomes. The second risk is that if there are changes in legislative priorities, the processing and approval of the social security reform could be delayed, jeopardizing the specific objective of improving pension adequacy. The third is that if more fund withdrawals from the pension fund administrators are approved in addition to the previous three, the number of enrollees with no savings in their individual accounts could go up, endangering achievement of the specific objective of improving pension adequacy and increasing future public expenditure on pensions. These risks cannot be managed within the project, and therefore will be monitored through an ongoing, fluid dialogue with the social security and tax authorities, just as has taken place since the beginning of the programmatic series for providing the technical inputs paid for with technical cooperation funding (paragraph 1.27).
- 2.6 **Sustainability of the reforms.** The programmatic series supports government policies that enjoy broad political support and immediately impact a large number of beneficiaries in the most vulnerable sectors of the population, meaning it is highly sustainable. The strength of Chile's fiscal institutions has facilitated the adoption of measures for expanding social assistance in the complex crisis caused by the pandemic. Likewise, the improvements in the expenditure management processes have been agreed upon with a diverse committee of experts. Despite the increase in expenditure resulting from the fiscal stimulus, the public debt is

sustainable given its low starting point and the adequate reserves, available financial buffers, and solid macroeconomic pillars (IMF, 2021).

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Chile, which will execute the operation through the Ministry of Finance, via DIPRES.
- 3.2 **Coordination mechanisms.** The responsibility for fulfillment of the program's measures falls to the executing agency, through DIPRES, which will coordinate with the ministries and/or public agencies responsible for the program's policy measures.
- 3.3 **Special contractual conditions precedent to the first and only disbursement of the financing. The sole disbursement is subject to fulfillment of the policy reform conditions as established in the Policy Matrix (Annex II) and the [Policy Letter](#), and the other conditions established in the corresponding loan contract.**

#### B. Summary of arrangements for monitoring results

- 3.4 **Monitoring.** The program will be monitored through verification of the policy measures agreed upon as conditions for disbursement and described in the Results Matrix (Annex III) and the Means of Verification Matrix ([required link 2](#)). Fulfillment of the output indicators will be confirmed with the information set forth in the Means of Verification Matrix. This matrix lists all of the actions to be implemented in the program, the entities responsible for doing so, and the specific information that will allow the Bank to verify fulfillment. The outcomes of the policy changes promoted through the program will be monitored through the information delivered by the relevant State agencies, as set forth in the Results Matrix and the [Monitoring and Evaluation Plan](#).
- 3.5 **Evaluation.** A before-and-after evaluation (without attribution) will be performed to show whether the reforms supported by the programmatic series are sufficient to improve social equity in Chile while maintaining fiscal sustainability. This evaluation will be performed as part of the project completion report that will be prepared for the two operations together, after the second operation has been completed.

### IV. POLICY LETTER

- 4.1 The [Policy Letter](#) reiterates the Government of Chile's commitment to the objectives and actions planned for the programmatic series and the coherence of national policies for improving social equity with fiscal sustainability.

| Development Effectiveness Matrix   |  |   |
|--|--|---|
| Summary  |  | CH-L1160  |
| I. Corporate and Country Priorities  |  |   |
| Section 1. IDB Group Strategic Priorities and CRF Indicators   |  |   |
| Development Challenges & Cross-cutting Issues  | -Social Inclusion and Equality<br>-Gender Equality and Diversity<br>-Climate Change<br>-Institutional Capacity and the Rule of Law |   |
| CRF Level 2 Indicators: IDB Group Contributions to Development Results   |  |   |
| 2. Country Development Objectives  |  |   |
| Country Strategy Results Matrix  | GN-2946  | (i) Improve the health of the Chilean people; (ii) Increase pensions sustainably; and (iii) Simplify government procedures for the public.  |
| Country Program Results Matrix   | GN-3034  | The intervention is 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  |  | 9.7   |
| 3.1 Program Diagnosis  |  | 2.5   |
| 3.2 Proposed Interventions or Solutions  |  | 3.2   |
| 3.3 Results Matrix Quality   |  | 4.0   |
| 4. Ex ante Economic Analysis   |  | N/A   |
| 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)   |  |   |
| Non-Fiduciary  | Yes  | Monitoring and Evaluation National System.  |
| 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/OC-18383-CH "Assisting Public Expenditure Quality and Efficiency", whose objective is to assist the recovery from the health and fiscal crisis. It also supports this operation in improving public spending evaluation methodologies and budget formulation processes. |

**Evaluability Assessment Note:**

This is the second and last operation in a programmatic series, of US\$500 million in this operation, aimed at improving social equity (maintaining fiscal sustainability) in Chile. The specific objectives are: (i) to improve the income of the most vulnerable population; (ii) improve the sufficiency of the solidarity pension systems of Law No. 20,255 and of contributory pensions of Decree Law No. 3,500; (iii) improve the availability of lower-cost drugs; and (iv) improve the efficiency of public spending and the quality of the budget formulation process. The programmatic series has been supporting reforms in four areas: work, pensions, health, and public spending. The first operation focused on the regulatory changes necessary to provide a short-term response aimed at improving social equity with fiscal sustainability and the second focuses on strengthening the implementation and deepening of these changes to achieve results in the medium term. The diagnosis is adequate and highlights the problems faced by the country. The COVID-19 pandemic has magnified the main problem identified in the first operation of the series, high inequality, understood as the income gap and access to basic services of the vulnerable population. The actions of the Government of Chile, partly supported by the first operation of this program, have contributed to lessen the negative impacts of the pandemic. These measures included extraordinary transfers to vulnerable and middle-class households; flexibility of criteria for the use of Unemployment Insurance; modifications to the Employment Protection Law to support companies and workers; reforms and strengthening of the Labor Intermediation System and the National Training and Employment Service; emergency authorization for the withdrawal of part of the funds accumulated in the individual accounts of the Pension Fund Administrators; and an increase in the basic solidarity pension and supplementary pension contribution. Additionally, the government has made progress in measures to reduce spending on drugs and improve the quality of public spending.

The proposed outcome indicators are reasonable and well specified. The monitoring and evaluation plan proposes to measure the key results before and after the series, with adequate sources of information. It also proposes complementary evaluations of the solidarity pension system and the health system that, depending on the sources of information, could allow the attribution of the results associated with some of the reforms. Additionally, it proposes a qualitative evaluation of the reforms.

## POLICY MATRIX

**Objective:** The general objective of the programmatic series is to improve social equity with fiscal sustainability in Chile. The specific objectives are to: (i) raise the incomes of the most vulnerable; (ii) improve the adequacy of the solidarity pension system under Law 20,255 and the contributory pension system under Decree-Law 3,500; (iii) expand access to lower-cost medications; and (iv) make public spending more efficient and improve the quality of the budget-formulation process.

| Components/<br>Policy objectives                          | Policy conditions<br>Programmatic Operation I  | Policy conditions<br>Programmatic Operation II  | Programmatic<br>Operation II<br>Fulfillment Status <sup>1</sup> |
|---|--|---|---|
| <b>Component 1: Macroeconomic stability</b>               |  |   |   |
| 1. Macroeconomic stability                                | 1.1.1 The macroeconomic environment is conducive to achieving program objectives and consistent with the policy letter.                        | 1.2.1 The macroeconomic environment is conducive to achieving program objectives and consistent with the policy letter.   | Fulfilled   |
| <b>Component 2: Income support for vulnerable workers</b> |  |   |   |
| 2. Raise vulnerable households' and workers' incomes.     | 2.1.1 A single income-support transfer has been approved, as an extraordinary family-support payment targeting the most vulnerable population. | 2.2.1 The income-support mechanism for vulnerable households has been strengthened, through the: <ul style="list-style-type: none"> <li>(i) granting of an emergency family income to households that meet the requirements established in Law 21,230;</li> <li>(ii) establishment of financing with a fiscal contribution to protect the incomes of members of the middle class who meet the requirements established in Law 21,252; and</li> <li>(iii) evaluation of the targeting of the extraordinary payment granted in December 2019 under Law 21,195.</li> </ul> | Fulfilled<br>(Q2, 2021)   |

<sup>1</sup> This information is merely indicative as of the date of this document. In accordance with document CS-3633-2 (Policy-based Loans: Guidelines for Preparation and Implementation), fulfillment of all of the conditions specified for disbursement, including the maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank at the time of the borrowers' request for the corresponding disbursement and will be duly reflected in the disbursement eligibility determination memorandum.



| Components/<br>Policy objectives | Policy conditions<br>Programmatic Operation I   | Policy conditions<br>Programmatic Operation II  | Programmatic<br>Operation II<br>Fulfillment Status <sup>1</sup> |
|----------------------------------|---|---|---|
|                                  | 2.1.2 A subsidy has been approved to ensure a monthly guaranteed minimum income, charged to tax revenue, for payroll workers governed by the Labor Code with a current employment contract for more than 30 hours per week.   | 2.2.2 The system for sustaining workers' incomes and recovering their jobs has been strengthened, through the: <ul style="list-style-type: none"> <li>(i) issuing of regulations that authorize and enhance access to unemployment insurance benefits under Law 19,728, in exceptional circumstances;</li> <li>(ii) amendment of MTPS Supreme Decree 28/2011, to include a line of action on allowances for: (a) hiring new workers; (b) the return of workers whose employment contracts had been suspended; and (c) workers who need childcare coverage for children under two;</li> <li>(iii) analysis of the guaranteed minimum income established in Law 21,218 with regard to the distribution of income of payroll workers.</li> </ul> | Fulfilled<br>(Q2, 2021)   |
|                                  | 2.1.3 The system for serving job seekers at the municipal labor information offices (OMIL) has improved, through: <ul style="list-style-type: none"> <li>(i) creation of a management module for the OMIL in the national job exchange, making it possible for them to identify and classify national job exchange users;</li> <li>(ii) Labor Department approval of a user manual for OMIL and the National Training and Employment Service (SENCE) on the national job exchange.</li> </ul> | 2.2.3 Coverage and the LIS have improved, through the: <ul style="list-style-type: none"> <li>(i) approval of the Competitive Funds Program to foster OMIL networking, with the objective of expanding job opportunities;</li> <li>(ii) implementation, in SENCE, of an online career counseling system; and</li> <li>(iii) strengthening of the national job exchange, through the development of new functionalities for workers and companies.</li> </ul>  | Fulfilled<br>(Q4, 2020)   |

| Components/<br>Policy objectives   | Policy conditions<br>Programmatic Operation I   | Policy conditions<br>Programmatic Operation II   | Programmatic<br>Operation II<br>Fulfillment Status <sup>1</sup> |
|--|---|--|---|
| <b>Component 3: Improvement of the outcomes of the solidarity pension system under Law 20,255 and the contributory pension system under Decree-Law 3,500</b> |   |  |   |
| 3. Increase pension amounts in the solidarity pension system.  | 3.1.1 An increase has been approved in the old-age basic solidarity pension and the maximum welfare pension over their November 2019 values, as follows, for persons aged: (a) over 80: 50%; (b) 75-79: 30%; and (c) under 75: 25%.   | 3.2.1 A study has been performed to analyze the impact of the increase on the old-age basic solidarity pension and the maximum welfare pension on the wellbeing of older adults.   | Fulfilled<br>(Q2, 2021)   |
| 4. Improve the evaluation and operation of the pension systems established in Decree-Law 3,500 as amended and in Law 20,255 as amended.                      | 4.1.1 A technical document has been prepared and disseminated to explain the actuarial model used by DIPRES to calculate contributory system pension amounts and the fiscal costs of the solidarity pension system, including the assumptions, sources of information, and methodology. | Policy action 4.2.1 was merged with policy action 4.2.3 (see <a href="#">optional link 1</a> ).  | Fulfilled<br>(Q2, 2021)   |
|  | 4.1.2 The Superintendency of Pensions has been equipped to receive documents on the official State communications platform (DocDigital) for uploading, certifying, signing, numbering, and distributing official documents.   | 4.2.2 The Superintendency of Pensions has improved the information and services provided by pension fund administrators to enrollees, by issuing minimum service quality standards for the pension fund administrators.  |   |
|  |   | 4.2.3 The National Congress has been sent the executive branch's proposed amendments to the bill that "improves the solidarity and individual contribution system pensions, creates new pension benefits for women and the middle class, creates an unemployment subsidy and insurance, and introduces amendments to the legal texts indicated." | Fulfilled<br>(Q1, 2021)   |

| Components/<br>Policy objectives                                     | Policy conditions<br>Programmatic Operation I  | Policy conditions<br>Programmatic Operation II  | Programmatic<br>Operation II<br>Fulfillment Status <sup>1</sup> |
|--|--|---|---|
| <b>Component 4: Increased availability of lower-cost medications</b> |  |   |   |
| 5. Help expand availability of lower-cost medications.               | 5.1.1 There is a regulatory framework in place to help reduce out-of-pocket expenses by authorizing the National Health Services System Supply Center (CENABAST) to broker medication purchases for pharmaceutical warehouses and private pharmacies.  | 5.2.1 CENABAST has taken measures to optimize the supply of medications to pharmacies by:<br>(i) starting the hiring process for an external logistics operator;<br>(ii) modifying the bidding specifications for medications.  | Fulfilled<br>(Q2, 2021)   |
|  | 5.1.2 The members of the CENABAST Advisory Council have been appointed (the Director of the Center or his/her appointed representative, a representative of the director of the National Health Care Fund, a representative of the Public Health Institute, and three economists), responsible for recommending procurement and final-price-setting procedures for the medications supplied by CENABAST. | 5.2.2 The Public Health Institute has implemented the mechanism for oversight of pharmacies, pharmaceutical warehouses, and nonprofit health centers that have signed agreements with CENABAST; this mechanism will enforce the established maximum price limits referred to in Law 21,198. | Fulfilled<br>(Q4, 2020)   |
|  | 5.1.3 Implementation of the new medication brokerage system has begun with the first cohort of pharmacies to sign an agreement with CENABAST.  | 5.2.3 The new medication brokerage system established in Law 21,198 has been implemented in more than the first cohort of 28 pharmacies that signed agreements with CENABAST in March 2020.   | Fulfilled<br>(Q2, 2021)   |

| Components/<br>Policy objectives  | Policy conditions<br>Programmatic Operation I   | Policy conditions<br>Programmatic Operation II   | Programmatic<br>Operation II<br>Fulfillment Status <sup>1</sup> |
|---|---|--|---|
|   | 5.1.4 MINSAL has implemented a strategy to provide citizens with information on the new bioequivalence policy, advancing the population's rights with regard to the availability of these medications.  | 5.2.4 MINSAL has launched actions to implement a national electronic prescription system, to:<br><br>(i) promote access to lower-cost medications for the end user, by facilitating the prescription and dispensing of bioequivalents; and<br><br>(ii) simplify verification of compliance with this regulation for the health authority.  | Fulfilled<br>(Q2, 2021)   |
|   | 5.1.5 MINSAL has modified the list of essential pharmaceutical stocks, calling for medication retailers to have a minimum stock of bioequivalents on hand.  | 5.2.5 MINSAL has issued decrees that approve bioequivalence of medications certified by medication regulatory agencies with stringent health surveillance, such as the United States Food and Drug Administration, to increase the availability of bioequivalents for the population.  | Fulfilled<br>(Q3, 2020)   |
| <b>Component 5: Improved quality of public spending</b>   |   |  |   |
| 6. Support development of a State policy that will improve transparency, control, and accountability to citizens with regard to public expenditure. | 6.1.1 The institutional framework for improving the quality of public spending and accountability to citizens has been strengthened through the:<br><br>(i) creation of a ministerial advisory committee to improve the transparency, quality, and impact of public spending (Public Spending Committee), to advise the Ministry of Finance on designing and implementing an agenda for modernizing the budget and public spending system that will make it possible to improve transparency, efficiency, effectiveness, and impact in the use of public funds. | 6.2.1 Transparency, control, and accountability over public expenditure have improved, through implementation of the Public Spending Committee recommendations, namely:<br><br>(i) creation of the "Emergency and Recovery Economic Plan" platform to improve public spending transparency and auditing procedures;<br><br>(ii) issuing of the Report on the Allocation and Environmental Impact of Green Bonds as part of the accountability for public investment; | Fulfilled<br>(Q2, 2021)   |

| Components/<br>Policy objectives | Policy conditions<br>Programmatic Operation I  | Policy conditions<br>Programmatic Operation II  | Programmatic<br>Operation II<br>Fulfillment Status <sup>1</sup> |
|----------------------------------|--|---|---|
|                                  | (ii) signing of a memorandum of understanding between the National Congress and the Ministry of Finance to improve the transparency, quality, and citizen-centered approach of public spending, by: (a) taking part in defining an agenda to modernize the budget system and the quality and efficiency of public spending; (b) executing the necessary actions and plans to facilitate access to information; (c) supporting the performance of a diagnostic assessment of the budget process in Chile, including its fundamental stages: formulation, discussion, approval, execution, and evaluation; and (d) strengthening the various institutional agencies involved in the budget process through approval of administrative or legal measures. | (iii) launch of a fiscal transparency review to improve the availability of budgetary information.  |   |
|                                  | 6.2.2 The congressional/executive branch agencies for coordinated review of public spending have been developed.<br><br>6.2.3 The agreements on improvements in the monitoring and evaluation of public spending have been incorporated into the formulation and deliberation of the Budget Act.   | 6.2.2 The agreements between the executive branch and the National Congress on improvements to the review and monitoring of public spending have been incorporated, <sup>2</sup> through the: | Fulfilled<br>(Q4, 2020)   |

<sup>2</sup> Policy actions 6.2.2 and 6.2.3 were merged into a new measure 6.2.2. See [optional link 1](#).

| Components/<br>Policy objectives  | Policy conditions<br>Programmatic Operation I   | Policy conditions<br>Programmatic Operation II  | Programmatic<br>Operation II<br>Fulfillment Status <sup>1</sup> |
|---|---|---|---|
|   |   | <ul style="list-style-type: none"> <li>(i) issuing of the document “Framework of Understanding for the Emergency Plan for Protecting the Incomes of Families and Economic and Employment Recovery” by the Ministry of Finance and the National Congress with the objective of promoting convergence and fiscal sustainability in the medium term;</li> <li>(ii) inclusion of a provision in Law 21,288 requiring the Ministry of Finance to report to the Special Mixed Budget Committee and the Chamber of Deputies and Senate Finance Committees on the progress of the regular and COVID-19 Temporary Emergency Fund budgets, including consolidated information on execution and the allocated budget; and</li> <li>(iii) inclusion of a provision in the Public Sector Budget Act of 2021 requiring the Ministry of Finance to send the Mixed Budget Committee a list with the investment projects contained in that law.</li> </ul> |   |
| 7. Support implementation of public spending monitoring and evaluation tools and systems. | 7.1.1 Public spending reviews have been institutionalized, through the: <ul style="list-style-type: none"> <li>(i) establishment of a Public Spending Review Unit at DIPRES, ensuring it has enough staff and is developing a framework and timeline for its work that will include the order of the spending reviews;</li> </ul> | 7.2.1 Progress has been made on incorporating the results of the public spending monitoring and review into the government budget-formulation process, through the: <ul style="list-style-type: none"> <li>(i) inclusion in the Public Sector Budget Act of 2021 of a specific process for integrating the results of program and spending reviews; and</li> </ul>  | Fulfilled<br>(Q4, 2020)   |

| Components/<br>Policy objectives | Policy conditions<br>Programmatic Operation I  | Policy conditions<br>Programmatic Operation II   | Programmatic<br>Operation II<br>Fulfillment Status <sup>1</sup> |
|----------------------------------|--|--|---|
|                                  | (ii) development of the first spending review pilot, focused on subsection 22 (consumer goods and services) of the Public Sector Budget Act and publication of results.  | (ii) integration of data-gathering processes for monitoring programs by the MDSF and DIPRES.   |   |
|                                  | <p>7.1.2 The systems and methodologies for evaluating public spending and the institutional coordination thereof have been strengthened, including:</p> <p>(i) formalization of the mechanism to coordinate the nonsocial programs evaluated by DIPRES and the social programs evaluated by the Social Evaluation Department of the MDSF so as to improve and standardize monitoring and allocative efficiency processes among both types of programs;</p> <p>(ii) strengthening financial reports for draft legislation, incorporating background information on the assumptions used in calculating the expected impacts;</p> <p>(iii) creation of a competitive impact-assessment fund for 2020, in coordination with the MDSF, to strengthen the impact assessment of spending programs.</p> | <p>7.2.2 The public spending review methodologies and monitoring systems have been strengthened through the development of:</p> <p>(i) a methodology for performing sector and crosscutting reviews of spending on the (a) <i>Aprasto Laboral</i> (Women's Access to the Labor Market) and (b) export-promotion programs;</p> <p>(ii) a pilot digital system for data visualization for the National Investment System, which will improve management and monitoring of public investment at the MDSF.</p> | Fulfilled<br>(Q2, 2021)   |

| Components/<br>Policy objectives  | Policy conditions<br>Programmatic Operation I   | Policy conditions<br>Programmatic Operation II  | Programmatic<br>Operation II<br>Fulfillment Status <sup>1</sup> |
|---|---|---|---|
| 8. Improve the budget-formulation process.  | 8.1.1 The rescheduling of the budget-formulation process has been agreed upon, with the objective of facilitating integration of the spending review and program monitoring results into the allocation of the annual budget.   | 8.2.1 The adjusted zero-based budgeting methodology has been implemented for formulating the public sector budget for 2021.   | Fulfilled<br>(Q4, 2020)   |
| 9. Promote the efficiency of public spending and savings in the procurement of goods and services by public agencies through ChileCompra. | 9.1.1 The operational efficiency of and generation of savings in the procurement of goods and services by public agencies governed by Law 19,886 on the Bases for Administrative Supply and Service Agreements and its regulations, set forth in Ministry of Finance Supreme Decree 250/2004, as amended (ChileCompra), have improved. This includes: <ul style="list-style-type: none"> <li>(i) modification of the public procurement regulations to create and implement the streamlined purchasing and coordinated purchasing modalities;</li> <li>(ii) development of a new virtual store platform for the framework agreement modality, including functionalities that enable A/B testing.</li> </ul> | 9.2.1 The operational efficiency of the procurement of goods and services by public agencies governed by Law 19,886 on the Bases for Administrative Supply and Service Agreements and its regulations, set forth in Ministry of Finance Supreme Decree 821/2020, as amended, has improved, including the expansion of: <ul style="list-style-type: none"> <li>(i) the use of the streamlined purchasing and coordinating purchasing modalities to promote efficiency and aggregation of demand;</li> <li>(ii) instruments to promote companies' competitiveness and participation: standard specifications and updating of framework agreements.</li> </ul> | Fulfilled<br>(Q2, 2021)   |



| Components/<br>Policy objectives | Policy conditions<br>Programmatic Operation I   | Policy conditions<br>Programmatic Operation II   | Programmatic<br>Operation II<br>Fulfillment Status <sup>1</sup> |
|----------------------------------|---|--|---|
|                                  | 9.1.2 The processes for setting prices in public procurements have been strengthened with the creation of the Business Intelligence and Studies Division at the DCCP. | 9.2.2 A bill on modernizing the public procurement system (ChileCompra) has been sent to the National Congress and its provisions include the:<br><br>(i) incorporation of circular economy principles; and<br><br>(ii) strengthening of the digitalization of public procurement processes. | Fulfilled<br>(Q2, 2021)   |

## RESULTS MATRIX

|                           |  |
|---------------------------|--|
| <b>Project objective:</b> | The specific objectives are to: (i) raise the incomes of the most vulnerable; (ii) improve the adequacy of the solidarity pension system under Law 20,255 and the contributory pension system under Decree-Law 3,500; (iii) expand access to lower-cost medications; and (iv) make public spending more efficient and improve the quality of the budget-formulation process. Achievement of these objectives will contribute to the programmatic series' general objective of improving social equity with fiscal sustainability in Chile. |
|---------------------------|--|

### GENERAL DEVELOPMENT OBJECTIVE

| Indicators  | Unit of measure | Baseline value | Baseline year | Expected year of achievement | Target | Means of verification                 | Comments <sup>1</sup>   |
|---|-----------------|----------------|---------------|------------------------------|--------|---------------------------------------|---|
| General development objective: The general objective is to improve social equity with fiscal sustainability in Chile. |                 |                |               |                              |        |                                       |   |
| Ratio of household per capita income between the 25th and 75th percentiles  | %               | 39             | 2017          | 2023                         | 40     | National Socioeconomic Survey (CASEN) | Note 1: CASEN is performed every two years. The results of the past two surveys were published between August and September of the year after the data was collected. The results of the 2023 CASEN should be published in the third quarter of 2024.<br><br>Note 2: Given the current context of the COVID crisis, the improvement is expected to be limited, as noted in the risk matrix. |
| Ratio of the earned income of formal workers in the 25th percentile vs. the 75th                                      | %               | 39             | 2019          | 2023                         | 40.5   | Unemployment insurance                | Note 3: Baseline to be determined on 31 May   |

<sup>1</sup> The comments section for each indicator is expanded in more detail in the [monitoring and evaluation plan](#).

| Indicators                            | Unit of measure | Baseline value | Baseline year | Expected year of achievement | Target | Means of verification  | Comments <sup>1</sup>   |
|---------------------------------------|-----------------|----------------|---------------|------------------------------|--------|--|---|
| Structural balance of public finances | %               | -1.5%          | 2019          | 2023                         | -1.5%  | Public Finance Report issued quarterly by the Budget Office (DIPRES) | The structural balance is expected to reach a deficit of 3.5% of GDP in 2020, which will shrink to deficits of 2.5% in 2021 and 2.0% in 2022. |

#### SPECIFIC DEVELOPMENT OBJECTIVES

| Indicators   | Unit of measure | Baseline value | Baseline year | End of project (2023) | Means of verification  | Comments <sup>2</sup>  |
|--|-----------------|----------------|---------------|-----------------------|--|--|
| Specific development objective 1: Raise the incomes of the most vulnerable               |                 |                |               |                       |  |  |
| Ratio of the income of the most vulnerable 25% to the median income (men)                | %               | 83             | 2017          | 84                    | CASEN  | Measures how the position of the most vulnerable men over the median changes. See notes 1 and 2.   |
| Ratio of the income of the most vulnerable 25% to the median income (women)              | %               | 67             | 2017          | 69                    | CASEN  | Measures how the position of the most vulnerable women over the median changes. See notes 1 and 2. |
| Ratio of the earned income of formal workers in the 25th percentile vs. the 75th (men)   | %               | 37             | 2019          | 38                    | Unemployment insurance administrative data processed by DIPRES | Note 3   |
| Ratio of the earned income of formal workers in the 25th percentile vs. the 75th (women) | %               | 42             | 2019          | 44                    | Unemployment insurance administrative data processed by DIPRES | Note 3   |

<sup>2</sup> The comments section for each indicator is expanded in more detail in the [monitoring and evaluation plan](#).

| Indicators  | Unit of measure | Baseline value | Baseline year | End of project (2023) | Means of verification                         | Comments <sup>2</sup>   |
|---|-----------------|----------------|---------------|-----------------------|---|---|
| Specific development objective 2: Improve the adequacy of the solidarity pension system under Law 20,255 and the contributory pension system under Decree-Law 3,500 |                 |                |               |                       |   |   |
| Pension system overall median replacement rate (men)  | %               | 56             | 2007-2017     | 61                    | Superintendency of Pensions Enrollee Database | Note 4: The replacement rate compares an individual's pension amount with the income they earned from work before retiring.           |
| Pension system overall median replacement rate (women)  | %               | 31             | 2007-2017     | 40                    | Superintendency of Pensions Enrollee Database | Note 4  |
| Percentage of old-age pensioners whose pension income is below the official poverty line (men)  | %               | 35.7           | 2017          | 31                    | Superintendency of Pensions Enrollee Database | Note 5: This measures the percentage of the population with enough pension income to avoid falling into poverty in the passive stage. |
| Percentage of old-age pensioners whose pension income is below the official poverty line (women)  | %               | 71.4           | 2017          | 66                    | Superintendency of Pensions Enrollee Database | Note 5  |
| Specific development objective 3: Expand access to lower-cost medications   |                 |                |               |                       |   |   |
| Savings by private pharmacies that joined the mechanism of CENABAST-brokered procurement and maximum product prices under Law 21,198                                | %               | 0              | 2019          | 30                    | CENABAST Information System Observatory (SIO) | Savings obtained by private pharmacies participating in the CENABAST centralized procurement mechanism                                |

| Indicators  | Unit of measure | Baseline value    | Baseline year | End of project (2023) | Means of verification | Comments <sup>2</sup>   |
|---|-----------------|-------------------|---------------|-----------------------|-----------------------|---|
| Essential basket medications purchased by health centers, procured at lower prices through CENABAST | %               | 75.4              | 2019          | 80                    | SIO-CENABAST          | This measures the percentage of medications considered essential to health centers' pharmaceutical stock that are procured through the CENABAST centralized procurement mechanism.  |
| Number of <i>comuna</i> pharmacies that purchase medications through CENABAST                       | Number          | 104               | 2019          | 135                   | SIO-CENABAST          | The scope of the indicator measurement corresponds to the number of <i>comuna</i> pharmacies that procure pharmaceutical products through the CENABAST brokerage process.   |
| Amount spent on medications purchased by <i>comuna</i> pharmacies through CENABAST                  | Pesos           | Ch\$8.591 billion | 2019          | Ch\$10.3 billion      | SIO-CENABAST          | The number of products requested by the <i>comuna</i> pharmacies is highly variable, and the makeup of the basket is dynamic with regard to the number of products. Therefore, it makes sense to consider the amount spent to be representative of the volume of products brokered for this subset of pharmacies. |
| Savings obtained on CENABAST-brokered purchases of drugs and supplies                               | %               | 34                | 2019          | 35.4                  | SIO-CENABAST          | The savings is multifactorial and reflects effects from industry availability and prices. One indicator of success is that the baseline time series pattern, with an average value of 34%, has been maintained at least since 2016.   |

| Indicators  | Unit of measure      | Baseline value | Baseline year | End of project (2023) | Means of verification                         | Comments <sup>2</sup>  |
|---|----------------------|----------------|---------------|-----------------------|---|--|
| Specific development objective 4: Make public spending more efficient and improve the quality of the budget-formulation process |                      |                |               |                       |   |  |
| Percentage of the government budget monitored as part of the budget-formulation process   | %                    | 44             | 2018          | 47                    | DIPRES annual public budget monitoring report | This measures the percentage of the public budget (over the total budget approved by law) monitored annually by DIPRES using its standard monitoring form. |
| Efficiency savings in public procurement under the streamlined purchasing modality  | Average person-hours | 12.03          | 2019          | 6.99                  | ChileCompra report                            | Average person-hours used to execute a procurement process for less than 10 monthly tax units  |

### Outputs<sup>3</sup>

| Indicators  | Unit of measure | Baseline value | Baseline year | End of project | Means of verification   | Responsible body |
|---|-----------------|----------------|---------------|----------------|---|------------------|
| <b>Component 2. Income support for vulnerable workers</b>   |                 |                |               |                |   |                  |
| Emergency family income for households that meet the requirements established in Law 21,230, granted  | Law             | 0              | 2020          | 1 (2021)       | Publication of the Law in the Official Gazette of the Republic of Chile | DIPRES           |
| Financing with fiscal contribution for protecting the incomes of members of the middle class who meet the requirements established in Law 21,252, established | Law             | 0              | 2020          | 1 (2021)       |   |                  |
| Review of the targeting of the extraordinary payment granted in December 2019 under Law 21,195, conducted   | Report          | 0              | 2020          | 1 (2021)       | Issued report   |                  |

<sup>3</sup> Annual execution programming and physical targets (Baseline expressed in stock, annual outputs expressed in flows)

| Indicators   | Unit of measure | Baseline value | Baseline year | End of project | Means of verification   | Responsible body |
|--|-----------------|----------------|---------------|----------------|---|------------------|
| Regulations that authorize and enhance access to unemployment insurance benefits under Law 19,728, in exceptional circumstances, issued  | Law             | 0              | 2020          | 1 (2021)       | Publication of a law that authorizes and enhances access to unemployment insurance benefits, in exceptional circumstances                     |                  |
| Regulation that includes a line of action on allowances for: (a) hiring new workers; (b) the return of workers whose employment contracts had been suspended; and (c) workers who need childcare coverage for children under two, modified | Decree          | 0              | 2020          | 1 (2021)       | Publication of MTPS decrees modifying MTPS Supreme Decree 28/2011   | MTPS             |
| Analysis of the guaranteed minimum income established in Law 21,218 with regard to the distribution of income of payroll workers, performed  | Report          | 0              | 2020          | 1 (2021)       | Issued report   | DIPRES           |
| Competitive Funds Program to encourage OMIL networking, with the aim of expanding job opportunities, approved  | Law             | 0              | 2020          | 1 (2020)       | SENCE Exempt Resolution 736 that approves "Technical and Administrative Specifications for Competitive Funds" and appoints a review committee | SENCE            |
| SENCE online career counseling system, implemented   | Report          | 0              | 2020          | 1 (2020)       | MTPS report on the implementation of the SENCE <a href="#">Job Search</a> and <a href="#">Career Counseling</a> portals                       | MTPS             |
| New national job exchange functionalities for workers and companies, developed   | Report          | 0              | 2020          | 1 (2020)       | MTPS report on the development of new national job exchange functionalities for workers and companies   |                  |

| Indicators  | Unit of measure       | Baseline value | Baseline year | End of project | Means of verification  | Responsible body            |
|---|-----------------------|----------------|---------------|----------------|--|-----------------------------|
| <b>Component 3. Improvement of outcomes of the solidarity pension system under Law 20,255 and the contributory pension system under Decree-Law 3,500</b>  |                       |                |               |                |  |                             |
| Study analyzing the impact of the increase in the old-age basic solidarity pension and the maximum welfare pension on the wellbeing of older adults, performed  | Report                | 0              | 2020          | 1 (2021)       | DIPRES report on the increase in the old-age basic solidarity pension and the maximum welfare pension  | DIPRES                      |
| Regulations setting minimum service quality standards for the pension fund administrators issued by the Superintendency of Pensions   | Regulation            | 0              | 2020          | 1 (2021)       | Superintendency of Pensions General Regulation 261 modifying Title III on Pension Fund Administrator Publicity and Internet Services Centers and Agencies of Book V of the Superintendency of Pensions Compendium of Regulations   | Superintendency of Pensions |
| The executive branch's proposed amendments to the bill that "improves the solidarity and individual contribution system pensions, creates new pension benefits for women and the middle class, creates an unemployment subsidy and insurance, and introduces amendments to the legal texts indicated," delivered to the National Congress | Report                | 0              | 2020          | 1 (2021)       | DIPRES communication that includes the executive branch's proposed amendments to the bill that "improves the solidarity and individual contribution system pensions, creates new pension benefits for women and the middle class, creates an unemployment subsidy and insurance, and introduces amendments to the legal texts indicated," delivered to the National Congress | DIPRES                      |
| <b>Component 4. Increased availability of lower-cost medications</b>  |                       |                |               |                |  |                             |
| Hiring process for an external logistics operator, started  | External resolution   | 0              | 2020          | 1 (2021)       | Exempt Resolution 1906/2021  | CENABAST                    |
| Medication bidding specifications modified by CENABAST to optimize supply   | Non-exempt Resolution | 0              | 2020          | 1 (2021)       | CENABAST Non-exempt Resolution 151/2020 modifying Non-exempt Resolution 341/2016   |                             |



| Indicators  | Unit of measure | Baseline value | Baseline year | End of project | Means of verification  | Responsible body |
|---|-----------------|----------------|---------------|----------------|--|------------------|
| Mechanism for oversight of pharmacies, pharmaceutical warehouses, and nonprofit health centers that have signed agreements with CENABAST, implemented by the Public Health Institute  | Document        | 0              | 2020          | 1 (2021)       | Document regulating the process of oversight of private pharmacies, with the checklist of all aspects to be reviewed according to Law 21,198; Document (instructions or internal resolution) indicating the inspection visit protocol for handling the signed minutes as a means of verification of the inspection performed |                  |
| New medication brokerage system established in Law 21,198 implemented in more than the first cohort of 28 pharmacies that signed agreements with CENABAST in March 2020   | Document        | 0              | 2020          | 1 (2021)       | CENABAST communication to DIPRES reporting the number of private pharmacies that have signed agreements with CENABAST in connection with Law 21,198, after March 2020  |                  |
| <p>Actions started for implementing a national electronic prescription system, to:</p> <ul style="list-style-type: none"> <li>(i) promote access to lower-cost medications for the end user, by facilitating the prescription and dispensing of bioequivalents;</li> <li>(ii) simplify verification of compliance with this regulation for the health authority.</li> </ul> | Document        | 0              | 2020          | 1 (2021)       | <ul style="list-style-type: none"> <li>(i) MINSAL Exempt Resolution 24</li> <li>(ii) MINSAL document approving the use of a digital platform for operating the National Electronic Prescription System (in preparation)</li> <li>(iii) MINSAL Decree 58 modifying Decree 466 of 1984</li> </ul>                              | MINSAL           |

| Indicators  | Unit of measure | Baseline value | Baseline year | End of project | Means of verification   | Responsible body    |
|---|-----------------|----------------|---------------|----------------|---|---------------------|
| Bioequivalence of medications certified by medication regulatory agencies with stringent health surveillance, such as the United States Food and Drug Administration, approved                        | Decree          | 0              | 2020          | 1 (2021)       | MINSAL Decree 54 modifying Decree 3 of 2010<br>MINSAL Decree 65   |                     |
| <b>Component 5. Improved quality of public spending</b>   |                 |                |               |                |   |                     |
| "Emergency and Recovery Economic Plan" platform for improving public spending transparency and auditing procedures, created   | Report          | 0              | 2020          | 1 (2021)       | Report on compliance with the recommendations of the Spending Committee and on the use of the platform                        | DIPRES              |
| Report on the Allocation and Environmental Impact of Green Bonds, published   | Report          | 0              | 2020          | 1 (2021)       | Report on the Allocation and Environmental Impact of Green Bonds  | Ministry of Finance |
| Fiscal transparency review to improve the availability of budgetary information, launched   | Document        | 0              | 2020          | 1 (2021)       | Review request letter to the IMF and DIPRES communication on the start of the mission and the background and progress         | DIPRES              |
| "Framework of Understanding for the Emergency Plan for Protecting the Incomes of Families and Economic and Employment Recovery" document by the Ministry of Finance and the National Congress, issued | Document        | 0              | 2020          | 1 (2021)       | Framework of Understanding for the Emergency Plan for Protecting the Incomes of Families and Economic and Employment Recovery |                     |
| Provision in Law 21,288 requiring the Ministry of Finance to report to the National Congress on the progress of the regular budget and the COVID-19 Temporary Emergency Fund budget                   | Law             | 0              | 2020          | 1 (2021)       | COVID-19 Temporary Emergency Fund Act (Law 21,288), Article 4   |                     |

| Indicators  | Unit of measure | Baseline value | Baseline year | End of project | Means of verification  | Responsible body |
|---|-----------------|----------------|---------------|----------------|--|------------------|
| Provision in the Public Sector Budget Act of 2021, requiring the Ministry of Finance to send the Mixed Budget Committee a list with the investment projects contained in that law         | Law             | 0              | 2020          | 1 (2021)       | Budget Act agreement for improving transparency in public works (Article 32 Budget Act 21,289)   |                  |
| Specific process for integrating the results of spending and program reviews included in the Public Sector Budget Act for 2021  | Law             | 0              | 2020          | 1 (2021)       | Budget Act 2021<br>Evaluation and Formulation of the 2021 Budget<br>DIPRES report  |                  |
| Data-gathering processes for monitoring programs between the MDSF and DIPRES, integrated  | Circulars       | 0              | 2020          | 1 (2021)       | Joint DIPRES and Social Review Department circulars on integrating data-gathering processes  |                  |
| Methodology for executing sector and crosscutting reviews of spending on the (a) <i>Apresto Laboral</i> (Women's Access to the Labor Market) and (b) export-promotion programs, developed | Report          | 0              | 2020          | 1 (2021)       | DIPRES report including crosscutting review methodology  |                  |
| Pilot of digital data visualization system for the National System of Investment in the MDSF, developed   | Report          | 0              | 2020          | 1 (2021)       | MDSF report on the development of the pilot with alpha-version monitoring platform   | MDSF             |
| Adjusted zero-based budgeting methodology for formulating the public sector budget for 2021, implemented  | Report          | 0              | 2020          | 1 (2021)       | DIPRES report including:<br>(i) report on the evaluation and formulation of the 2021 budget; and<br>(ii) relevant boxes from the Public Finance Report Q4 2020 | DIPRES           |

| Indicators   | Unit of measure  | Baseline value | Baseline year | End of project | Means of verification  | Responsible body |
|--|------------------|----------------|---------------|----------------|--|------------------|
| <p>Operational efficiency of and generation of savings in the procurement of goods and services by public agencies governed by Law 19,886 on the Bases for Administrative Supply and Service Agreements and its regulations, set forth in Ministry of Finance Supreme Decree 250/2004, as amended (ChileCompra), improved, including the expansion of the:</p> <ul style="list-style-type: none"> <li>(i) use of the streamlined purchasing and coordinated purchasing modalities to promote efficiency and aggregation of demand;<sup>4</sup></li> <li>(ii) instruments to promote the competitiveness and participation of companies: standard specifications and updating of framework agreements.</li> </ul> | Technical report | 0              | 2020          | 1<br>(2021)    | <ul style="list-style-type: none"> <li>(i) DCCP technical report, to be submitted to the IDB through the letter from the Budget Director;</li> <li>(ii) DCCP technical report, to be submitted to the IDB through the letter from the Budget Director</li> </ul> | MDSF             |

<sup>4</sup> ChileCompra, [New procurement modalities](#).

| Indicators   | Unit of measure | Baseline value | Baseline year | End of project | Means of verification   | Responsible body |
|--|-----------------|----------------|---------------|----------------|---|------------------|
| <p>Bill on modernizing the public procurement system sent to the National Congress, including provisions on:</p> <ul style="list-style-type: none"> <li>(i) incorporating circular economy principles; and</li> <li>(ii) strengthening the digitalization of public procurement processes</li> </ul> | Bill            | 0              | 2020          | 1<br>(2021)    | DIPRES communication including message and bill sent to the National Congress | DIPRES           |

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_\_/21

Chile. Loan \_\_\_\_/OC-CH to the Republic of Chile. Program to  
Support Social Equity and Fiscal Sustainability II

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 Program to Support Social Equity and Fiscal Sustainability II. Such financing will be for an amount of up to US\$500,000,000 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)