CHILE
Country Assistance Evaluation

February 6, 2002

Operations Evaluation Department

Acronyms

CAE	Country Assistance Evaluation
CEM	Country Economic Memorandum
CODE	Committee on Development Effectiveness
EFF	Extended Fund Facility
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
MECE	Programa de Mejoramiento Educativo Program to Improve the Quality and Equity of Education
MIGA	Multilateral Investment Guarantee Agency
OED	Operations Evaluation Department
SAL	Structural Adjustment Loan

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Washington, D.C. 20433
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Office of the Director-General
Operations Evaluation

February 6, 2002

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Chile – Country Assistance Evaluation

Chile performed very well over the period 1985–2000, mainly the result of good economic management assisted by favorable external events early in the period. Good management rescued the economy from the brink of disaster in the mid-1980s, and kept it growing quickly during the 1990s. Together with sound macromanagement, the authorities acted to reduce income inequality and alleviate poverty. The data attest to the efficacy of the strategy: GDP grew at 6.8 percent per year over the period and poverty rates declined from about 45 percent in 1987 to 22 percent in 1998. Extreme poverty fell from about 17 percent in 1987 to about 6 percent in 1998. Life expectancy, 75 years, exceeds Latin America's (70 years). Despite these achievements, poverty and inequality continue to pose a development challenge and unfavorable external shocks can still mar the country's ability to perform well.

The Bank played a key supportive role, with money and advice, in helping Chile out of the mid-1980s crisis and in the economic transformation that followed. The Bank's assistance evolved to meet Chile's changing economic circumstances. It started with adjustment loans to help Chile reestablish access to international capital markets, and it evolved to include loans for infrastructure and agriculture, to reduce bottlenecks hindering economic growth and the growth of exports. With stability and growth secured, the Bank emphasized social welfare and human resources development with loans for education and health increasing their share in Bank lending.

The outcome of the Bank's program has been highly satisfactory. Bank assistance supported substantial institutional development, and time has shown that the achievements reached have a high likelihood of being sustained. Bank assistance over 1985–99, although small as a percent of GDP—0.7 percent—supported comprehensive reforms. Its development impact consisted of supporting policies that created the conditions for faster growth and lower poverty. The institutional change that the assistance supported promoted private sector development and better governance, financial accountability and financial management. The Bank also contributed to improved management of water resources and better gender outcomes.

Chile's impressive achievements place it steps ahead of many middle income countries, but important issues remain to be addressed. Looking ahead, the Bank could play two primary roles in Chile: to help advance the social agenda and help mitigate the unfavorable impact of shocks on Chile's economic performance. The government's desire to improve social policies suggest that the Bank should focus its assistance on health, education and safety net programs. While Chile now has good access to international capital markets, systemic shocks could reduce that access, encumbering Chile's ability to achieve its development objectives. Consequently, it may be beneficial to maintain an active Bank program in Chile.

This evaluation was discussed by CODE on December 17, 2001 and a report of the discussion is included as Attachment II.

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Jorge García-García was the Task Manager for this report. Dinara Seijaparova provided statistical information and Norma Namisato provided administrative support.

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Preface

This report reviews the Bank's assistance strategy for Chile from 1985 to 1999. It looks at the extent to which the assistance dealt with the major issues confronting the economy and society and how it contributed to the accomplishments of the country. The CAE assesses the relevance, efficacy and efficiency of that assistance and recommends actions for the future.

The CAE, a desk study, is based on the review of a wide array of World Bank documents, including correspondence files, appraisal, supervision and completion reports, OED evaluation reports of individual operations, economic and sector reports, country strategy papers and limited interviews with those involved with the assistance.

A draft of the CAE was shared with the Borrower and its comments are presented as Attachment I. The CAE was discussed by CODE on December 17, 2001, and a report of the discussion is included as Attachment II.

1. Economic Background and Government Strategy

Economic Background

1.1 Chile performed extremely well during 1985–1999 as reflected in its economic and social indicators. GDP grew rapidly, poverty declined and social indicators are among the best in Latin America. Over the period GDP grew at 6.8 percent per year. Between 1987 and 1998 poverty rates declined from about 45 percent to 22 percent, and extreme poverty fell from about 17 percent to about 6 percent.[1] In spite of good progress and favorable comparisons with similar countries poverty and income inequality persist.

1.2 Chile's solid performance over the period was preceded by economic turmoil (1982–1984), followed by a recession (1998–1999). The crisis helped to shape the nature of the economic policies, while the recession brought to the fore Chile's vulnerability to changes in the terms of trade and external interest rates.[2]

1.3 *The crisis and its aftermath: 1982–1984*. The economic policy of the 1970s left a legacy of relative fiscal soundness, more efficient government administration, better resource allocation, and a more flexible economy. But it also left in place policies incompatible with sustained growth and stability—nominal wages indexed to past inflation, a fixed nominal exchange rate, inadequate supervision of financial institutions and weak corporate governance. These policy weaknesses together with large negative external shocks led to large current account deficits (15 and 10 percent of GDP in 1981 and 1982 respectively) and high debt service (71 percent of exports of goods and services in 1982). In mid-1982, after foreign commercial banks stopped lending to Chile and the government devalued the peso, the economy collapsed. The main external shocks that contributed to breeding and magnifying the crisis were a rise in external rates of interest, a fall in the price of copper, lower growth of the world economy and the regional debt crisis triggered by Mexico's debt problems.

1.4 The crisis brought a sharp fall in output. It also intensified problems in the financial sector. In 1982 GDP fell 15 percent, unemployment increased to 25 percent, gross domestic investment fell 50 percent and insolvency in the financial and productive sectors spread. The authorities intervened some of the largest firms and banks in January 1983, to keep them afloat, and the Central Bank gave subsidized credit to debtors; the fiscal costs of financial rescue operations reached 3.2 percent and 9.7 percent of GDP in 1982 and 1983 respectively. In order to reschedule the amortization of its own external

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[1] Chile performed as well or better in matters of social development than its neighbors and countries with similar level of development. During the period 1989-98 urban poverty (national total not available) increased in Argentina from 13 percent to 17 percent, and fell in Uruguay from 20 percent to 17 percent; in Chile, urban poverty fell from 48 percent to 24 percent (Quentin Woodon and others, Poverty in Latin America: Trends (1986-98) and Determinants (mimeo, World Bank, April 2001). Compared with countries of similar income level (Argentina, Uruguay, Hungary and Czech Republic) Chile shows equal or better indicators for life expectancy (75 years) and infant mortality (14 per 1000) but lags behinds in literacy (94 percent) (see Annex Table 2A).

[2]. See Ricardo Caballero, *Coping with Chile's External Vulnerability: A Financial Problem*, report prepared for Central Bank of Chile, May, 2001.

debt, due in 1983–84, and to get additional loans to cover the current account deficit, the government was forced to guarantee part of the private foreign debt. In early 1985 Chile still needed large capital inflows but its access to loans from foreign commercial banks was limited. By then the authorities had realized that effective and lasting solutions to the problems required immediate action.

Government Strategy

1.5 *The Structural Adjustment Program of 1985–88*. The authorities realized that effective solutions would bring hardship in the short-term, but substantial benefits in the medium and long-term. The administration faced the problems decisively. When the program was conceived, it was agreed that the reforms should aim at increasing exports and public savings, reducing external debt and rehabilitating the financial sector. These policies were to be complemented with policies to maintain infrastructure and alleviate poverty. To achieve its objectives the government increased tax revenues (by about 3 percentage points of GDP), reduced government expenditure (by about 2.5 percentage points of GDP), maintained a tight monetary policy, let real wages fall and the peso depreciate, and reduced import tariffs from 25 percent to 20 percent.

1.6 In addition to these strong macrostabilization measures, the government implemented major structural reforms. Among these, the government privatized state-owned enterprises, promoted debt-for-equity swaps, eliminated from the investment program capital intensive projects (Santiago subway, large irrigation projects) in favor of higher priority projects (road maintenance and irrigation rehabilitation). The authorities also improved supervision of banks and other financial institutions. Another important action was to establish the copper stabilization fund (CSF) in January, 1986. Prodded by the Bank, the government established a fund to stabilize fiscal revenues from the Corporación del Cobre's (CODELCO) exports, thereby reducing the impact of changes in the terms of trade on fiscal revenues and foreign exchange earnings. Later, in 1987–88, the government acted to develop domestic capital markets by lifting some of the restrictions on stock investing by pension funds and insurance companies, and providing incentives for workers to purchase shares of newly privatized companies.

1.7 Comparing performance for 1985 and 1988, annual GDP growth increased from 2.4 percent to 6.7 percent, and unemployment fell from 12 percent to 8 percent; the current account deficit as percent of GDP fell from 8.3 percent to 1.3 percent, and the fiscal deficit of 2.6 percent of GDP turned into a surplus of 2.9 percent of GDP. External debt service fell from 50 percent of exports to 25 percent. Also, most entities in the financial system, losing money and insolvent in 1985, became solvent and profitable by the end of 1988.

1.8 *The 1990s: Growth, stability and equity*. In 1990 Chileans elected their first democratic government since 1973, an election that reduced political uncertainty and paved the way for faster growth. The elections brought a substantial change in the political regime, but not in the way most Chileans viewed economic policy. They still held the view that growth and stability were fundamental for economic prosperity, and most thought that the government should make additional efforts to reduce poverty and inequality. This consensus led Presidents Aylwin and Frei to base their economic policies on three pillars: (a) macroeconomic stability, to sustain economic growth; (b) international opening of the economy, to increase productivity and efficiency; and (c) larger government expenditures in health, housing, education and social security, to improve the welfare of the poorest.

1.9 The administrations of Presidents Aylwin and Frei managed economic policies well, maintaining good macroeconomic management and making an important effort at reducing inequality. The nonfinancial public sector generated an annual surplus of 1.6 percent of GDP, and government expenditures in health and education increased by about 2 percentage points of GDP. Tariffs fell to about 8 percent, part of a law that mandates tariff levels of 6 percent in January 1, 2003. GDP grew by 6.5 percent per year and inflation declined from 26 percent in 1990 to about 4 percent in 2000. Growth and targeted social policies helped to reduce poverty and inequality. A study based on the 1998 household survey found that social policies increase the income of the first and second lowest income quintiles by about 70 percent and 23 percent. The study also found that social policies reduced the ratio of incomes of the highest income quintile to that of the lowest income quintile from 20 to 10.[3]

2. The World Bank's Assistance Strategy

2.1 The initial objectives of Bank assistance have been to support the government's stabilization policies and structural reforms so as to restore Chile's access to international capital markets and create the conditions for faster growth and sustained reduction in poverty.

Bank Strategy

2.2 The Bank timed and structured its assistance strategy in a way that brought important benefits to the country. During the years of crisis the Bank played a key role in supporting Chile's path to recovery and growth, with well designed, quick disbursement adjustment loans. The loans opened the door to loans from commercial banks and to negotiating debt agreements when Chile had lost access to international capital markets. The Bank played a key supportive role in the reforms carried out during the stabilization period and in designing systems to mitigate the impact of external shocks. After the crisis, Bank lending evolved from supporting adjustment programs to supporting sector reform and investment in selected sectors—human resources and the management of public expenditures and natural resources. The Bank responded well to the country's increased demand for support in education and health, two areas that the Aylwin and Frei administrations thought fundamental for reducing poverty, improving equity and increasing growth rates over the long term.

[3] David Bravo, Dante Contreras and Isabel Millán, The Distributional Impact of Social Expenditures in Chile (Santiago, mimeo, 2000).

Lending

2.3 Over the period 1985–1999 the Bank approved loan commitments of about $3 billion, of which $0.75 billion went to adjustment lending. The bulk of nonadjustment lending went to infrastructure, human development, industry and finance, housing and urban development, agriculture and urban water supply (see Table 1). About 90 percent of Bank lending for the period 1985–99 occurred in 1985–93 ($2.6 billion), when Chile's access to international markets was severely limited. The sharp decline in commitments for 1994–99 reflects Chile's successful economic recovery and healthy fiscal situation.

2.4 The focus of Bank assistance changed over time, as stabilization and adjustment policies succeeded and new priorities emerged. During 1985–89, the Bank focused on adjustment loans (SALs I, II and III in FY85, FY86 and FY87 respectively), sector loans (Roads III in FY85), and large loans for energy (FY87) and housing (FY85 and FY89). In FY90 the Bank gave a loan for the financial sector and another for the road sector that provided a basis for important institutional changes in maintaining and managing roads. Since 1991 lending for education and health, irrigation, agriculture, urban water supply, and urban development gained preeminence in the Bank's lending program.

Table 1 – World Bank Commitments by Sectors: FY85–00
(US$ million)

	1985–89	*1990–94*	*1995–99*	*Total*
Adjustment Lending	750	0	0	750
Infrastructure (electricity, transport)	332	295	120	747
Education and Health	0	287	185	472
Industry and Finance	215	130	0	345
Housing and Urban Development	280	10	10	300
Agriculture	56	140	15	211
Water Supply, Sanitation	66	50	0	116
Others	11	29	5	45
Total	**1,710**	**941**	**335**	**2,986**
Average per year	**342**	**188**	**67**	**199**

Source: World Bank, Business Warehouse.

2.5 The trends in Bank lending were consistent with those outlined in four strategy papers (1986, 1988, 1993, 1995). The Country Strategy Paper for FY86–88 identified structural adjustment as the main element of the strategy. As the economy stabilized, the strategy began to move away from a macroeconomic focus. Instead, the Bank strategy for FY88–93 proposed sector adjustment loans in the capital markets and social sectors, complemented by investment loans. The economic and political changes of the early 1990s brought new challenges to the Bank. Chile needed less foreign lending, but the country still had large social gaps to fill and to improve its infrastructure. The Bank's assistance strategies for FY93–95 and FY96–98 focused on developing human resources (education and health) and transport.

Sector Work

2.6 Economic and sector work of good quality supported lending operations and policy advice throughout. It emphasized the elements that became the foundation of the Bank's strategy for Chile: stabilizing, adjusting and reforming the economy, and consolidating growth (CEM 1984, 1987, 1990 and financial sector report), building the infrastructure necessary for rapid and sustained growth (electricity, roads, ports), alleviating poverty, developing natural resources (forestry and mining, 1986 and 1989), and setting policies and investment priorities for agriculture (1985, 1990). With recovery achieved, priorities moved to promoting social development and more effective antipoverty programs, both of which were severely reduced by the budget cuts of the 1980s. A 1990 review of social development (health, education, housing, social security and social safety net programs), illuminating the magnitude of the budget cuts and suggesting possible mechanisms to deliver more and better services, supported the efforts of the first democratic government to improve human welfare. Further work in health dealt with second generation issues: health risks and health care costs, costs of health in old age and catastrophic health costs. Work on the environment helped to identify problems in a range of issues, from forest management to air pollution in metropolitan Santiago and urban water pollution throughout the country.

3. Evaluation of the World Bank's Assistance Strategy

Products and Services

3.1 Bank lending assistance to Chile stands out among the best in the Bank in terms of outcome, sustainability and institutional development (Table 2, and Annex Table 6 for comparison with countries of similar level of development).

Relevance of Program

3.2 OED rates the relevance of the Bank's program as substantial. In the majority of cases, the Bank diagnosed the problems correctly and identified objectives that would increase the welfare of Chileans and the country's growth prospects. The Bank chose first to reduce the international liquidity constraint, to improve the health of the financial and corporate sectors and to mitigate bottlenecks in infrastructure. After the economy began to recover, other problems surfaced. In the 1990s it became clear that, to alleviate poverty and to improve human welfare, the quality and quantity of health and education services should improve. Growth also demanded better transport infrastructure and the Bank was ready to assist to improve it.

Table 2 – OED Project Ratings: 1985–99
(percent of net value of commitments)

	Chile	*Bankwide*	*Latin America*
Satisfactory Outcome	88	82	82
Substantial Institutional Development Impact	59	39	45
Likely Sustainability	87	56	67

Efficacy of Assistance

3.3 OED rates efficacy as substantial. Eighty eight percent of the loans had satisfactory outcomes. All adjustment loans and loans for human resource development, water resources management, and public investment and institutional change in infrastructure had satisfactory outcomes. Only in the housing sector (see Box 2, page 8) and in credits for small farmers and small enterprises were the outcomes unsatisfactory. The small enterprise credit could not encourage commercial banks to lend to small companies because it did not abolish the cause of their reluctance to lend: highly subsidized state financing. Eight loans are still outstanding, and supervision reports indicate that their implementation is proceeding well, although the municipal development and decentralization loan seems to be performing below expectations.

Efficiency

3.4 Operations in Chile rank among the most cost effective for the period 1991–99 per loan granted. The overall cost of the program in Chile (including the costs of loan preparation and supervision and of economic and sector work) was about $0.7 million per loan (see Annex Table 6A and 6B). This cost is the 29th lowest among 108 countries. Similarly, Chile's costs are the 9th lowest among 21 countries with loan size of $35 million–$55 million (Chile's is $45 million).[4]

Successful Bank Assistance to a Committed Government

3.5 *Promoting growth and savings, reducing external debt burden and restoring confidence in the financial system*. The three structural adjustment loans supported policies that stimulated better performance of the economy during and after the adjustment (1985–1990). SAL I, in particular, and the IMF's Extended Fund Facility (EFF), reestablished Chile's access to credit from foreign commercial banks. SALs II and III smoothed Chile's access to capital markets, facilitating successful debt-for-equity swaps, and additional external financing from commercial banks. The support Chile received from the Bank (and IMF) in its 1985–86 debt negotiations was crucial to obtain

[4] Operating costs per $1,000 of net commitment (see Annex Table 6B) show Chile to be the highest in the table. That high cost results from Chile having smaller loan size than the other countries in the table.

the financing to cover the balance of payments deficit and to reschedule the commitments that matured in 1985–86. The SAL II , besides financing part of the balance of payments deficit, helped Chile to negotiate a retiming of interest payments, changing their frequency from a six-monthly to a twelve-monthly basis starting January 1987. The SAL III helped Chile negotiate repayment of interest from a six-monthly to a twelve-monthly basis, a reduction in LIBOR margins for both new money and original debt, and refinance loans for about $12.5 billion up until 1991.[5] During the duration of Chile's structural adjustment program (1985–88) all major economic indicators improved. The immediate benefits of the Bank-supported program would extend over the following years, as sound macroeconomic management persisted and Chile grew at 6 percent per year over 1988–1998.

3.6 *Health*. Two loans for health projects financed the rehabilitation of public hospitals and programs for cervical cancer and environmental health. They also helped to improve the efficiency of public health services and supported studies that helped to launch institutional reforms in the sector. The projects achieved their physical objectives. The studies helped the government to decentralize the health system further, and to establish a public-private complementary health system. They also showed that the National Food Supplementation Program (PNAC) could be more cost-effective by focusing on the groups that lacked resources and run high risks, such as people older than 70 years and younger than four years (versus 7 years in the past). One of the loans helped to set the stage for a public debate that promoted reforms and pilot experiments with service delivery. The pilot tests and small demonstrations of alternative programs showed the progress and results of the reform program, and became a powerful tool for convincing the stakeholders of the benefits of the program.

3.7 *Education*. The Bank responded promptly to the demands for assistance in education and health in the 1990s. In education one loan supported the government's "Program to Improve the Quality and Equity of Education" (MECE). The loan helped to expand coverage and improve the quality of preschool education, and supported processes to improve the managerial and financial capacity of the education agencies. The project showed that flexible programs adapt better to diverse circumstances and education systems, such as that of Chile, which has private and public providers, formal and informal systems, rural and urban schooling and wide socioeconomic differences in the student population. The loan supported grants for the Programa de Mejoramiento Educativo which had a remarkable impact on the management and organizational culture of the schools. The program demonstrated that emphasizing the pedagogy and the learning process in classrooms helped to improve the quality of education. To achieve this result the program fostered teacher and community participation.

3.8 A second loan, the Primary Education Improvement Project, assisted the Government in enhancing the quality, equity and efficiency of primary education in selected schools in rural and urban areas. The project supported changes to delivering instruction in the classroom, fostered decentralization and gave schools authority to seek

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[5] OED, *Program Performance Audit Report Chile*, Report No. 8851, June 26, 1990, Annex 5, pp. 223, 233, 243 contains comments of the Central Bank on the role of the IMF, World Bank and other sources of financing.

funds and develop programs suitable to their needs. The project also helped to improve equity by targeting the more at-risk schools, thereby trying to mitigate one of the problems in the education system. Although the educational reforms have brought considerable gains to the quality of public schools, the education system has not been able to mitigate the inequities arising from school vouchers. Parents who take advantage of the vouchers are often able to pay the extra fees required. Also, the schools that receive assistance can select their students, with the better schools tending to select children who are easier to educate. Public schools often must deal with more problematic children, of poorer and less educated parents, straining school and teacher resources. The two primary education loans have been complemented with two, still active, loans: the Secondary Education Quality Improvement Project (1995) and the Higher Education Improvement project (1998). Box 2 summarizes the developments in education during the 1990s.

Box 1. Best Practice: Road Sector Loans

Bank lending to Chile has several examples of good-to-best practice loans -roads, electricity, irrigation, among others- but the loans to road transport exemplify best the benefits of project lending and sector adjustment lending. Neglected by the government for several years, Chile’s roads were in disrepair in the mid-1980s, becoming an obstacle to the growth of domestic and international trade. To eliminate this bottleneck, the roads had to be repaired, maintained and new ones built, and the government and private sector had to work together to speed this recovery. The Bank stepped in with three loans (*Loans 1927, 2297 and 2589)* that helped to arrest the deterioration of roads and to bring important institutional changes for managing road infrastructure. The projects achieved far-reaching results. First, the projects supported transformation of the highway agency into an effective and efficient organization, and financed construction, upgrading, rehabilitation and maintenance of some 79,000 km. of road. Second, economic efficiency became the overriding criteria for decisions to maintain and build road infrastructure. Third, private sector participation in managing and maintaining roads increased the efficiency of these expenditures, and induced the government to spend more on maintenance relative to new road constructions. The projects, thus, constitute outstanding examples for the Bank elsewhere.

3.9 The impact of Bank assistance in the health and education sectors went beyond financing. Early in the period Bank advice helped to prevent investments in some expensive projects, releasing resources for health, education and other social programs. A review of social development in 1990 showed that expenditures in health and education had been cut drastically, affecting service in public health system hospitals. That review also served to point out the importance of monitoring the nutritional status of high-risk groups, of expanding the coverage of preschool education, and of improving the quality of primary education. The Bank has supported with loans and policy advice Government efforts at improving the quality of education and access to it. Public expenditure in education increased by more than one percent of GDP over the past decade, but Chileans

Box 2. Education Policy in Chile: An Experience to Learn From

Over the past 20 years Chile reformed its educational policy substantially. The Government started the changes and the Bank supported some of them, especially in the 1990s. Chile's educational policy constitutes an example that other developing countries could look at, to learn about what works well and what does not.

During the 1980s Chile's government decentralized school administration, introduced a voucher system of financing and used legal and market incentives to spur the growth of state-funded private schools. In 1990, the Government of President Aylwin emphasized explicitly public investments in the quality and equity of education, the learning contexts, and the outcomes of the system, while maintaining the organizational and funding components begun in the 1980s. The policies of the 1990s covered four domains: financing of education, regulation of the teaching profession, mandatory changes in the school day and curriculum, and voluntary programs to improve educational quality and equity. Over the 1990s the budget for education more than doubled in real terms. In 1991 the government revised the labor law governing the teaching profession, and moved it out of the Labor Code which governs private employment activities. To improve the quality and equity of educational opportunities the Government designed comprehensive and differentiated programs of intervention such as investing in learning resources and funding school-proposed improvement projects. It also

- lengthened the school day to 8 pedagogical hours;
- defined a new, more flexible but also more demanding, curriculum for primary education;
- introduced a succession of programs, each one covering a strategic need and built on the experience of the preceding one. The Government concentrated first on the 10 percent of the poorest primary schools (900 schools program), then on the entire state-supported primary education level, and subsequently on the secondary level (with two programs, one offering universal coverage and the other highly focused coverage). The 900 schools program focuses on schools with the poorest performance, and those that improve move to the Ministry of Education's universal coverage program for basic education—Program to Improve the Quality and Equity of Education MECE-Básica.

The education improvement programs represent systemic interventions to change the conditions, processes and outcomes of municipal and private subsidized schools through investment in material inputs and innovations adapted to specific types of schools. MECE Básica, launched in 1992 with financial and technical support from the World Bank, covered the whole of the primary level, and its external funding ended in 1997. MECE-Media, also supported by the World Bank, includes all secondary schools (municipal and private-subsidized) and aims at advancing new strategies of comprehensive intervention. MECE programs have improved buildings and facilities and funded a health program to detect and treat visual, hearing or other learning impairments. MECE programs have also provided direct pedagogical assistance to teachers in rural schools, funded teachers and students initiatives, and set up financial support networks of different degrees of institutionalization.

Description of programs based on Cristián Cox and María José Lemaitre, "Market and State Principles of Reform in Chilean Education: Policies and Results," in Guillermo Perry and Danny Leipziger (eds.), *Chile: Recent Policy Lessons and Emerging Challenges* (Washington, D.C., The World Bank, 1999), 149–189.

are debating the impact of this additional expenditure on the quality of education.[6] Supporting education programs should have priority in the Bank's strategy for Chile, but this support must be based on an informed view of what is more effective for the country.

3.10 *Governance*. The reforms that the Bank supported (in trade policy, the financial sector, bank supervision, roads, irrigation, local government) brought transparency to economic affairs, made government more effective, and reduced opportunities for graft in the financial and corporate sectors. The advent of a democratic government in 1990 increased these gains, to which the Bank contributed through projects and pilot projects that supported better management of public assets and expenditures.

3.11 *Private sector development*. Reforms that the Bank supported, such as tariff reductions, freer financial markets, better supervision of financial institutions, private sector management of public works and water users associations management of water, all promoted competition and private sector development. They reduced barriers to entry in sectors controlled by the government or other private parties, and increased transparency. Bank assistance also promoted the private sector by granting guarantees for private investors; to help complete the package of SAL I and the IMF's EFF, the Bank set a precedent in infrastructure by guaranteeing half of the $300 million in syndicated cofinancing for highways.

Box 3. Poor Practice: Housing Sector Loans

The two housing sector loans, which supported expanding the supply of housing for low-to-medium-income families, sought to reform housing subsidies and reduce default rates on loans from the Ministerio de Vivienda (MINVU). The reforms in housing subsidies sought to achieve better targeting and full cost recovery from beneficiaries not eligible for the subsidies. However, the Government considered that tackling the large housing deficit had priority over a major policy reform in the sector. Not understanding the Government's priorities, the Bank tried to support reforms in a sector not yet ripe for them. Two reasons explain the Government's reluctance to reform policy in the sector. First, the Government did not want to change a system that delivered low-cost housing to low-income households at affordable terms. Second, housing became one of the democratic Government's main social welfare programs and, as a result, the MINVU housing program grew substantially during the life of the project. The housing sector loan shows that no matter how reform minded a government may be, the Bank cannot promote sector-specific reforms when the Government lacks interest in them. Unless there is strong government commitment, it is often best for the Bank to stay away from politically sensitive sectors.

3.12 *Financial sector development*. Bank assistance in the SALs and financial sector loans helped assure that the solutions proposed to the poor bank supervision and weak corporate governance restored credibility to the financial system and restored solvency in the corporate sector. That assistance helped introduce more effective ways of supervising

[6] See, among others, D. Bravo, D. Contreras and C. Sanhueza, Educational Achievement, Inequalities and Private/Public Gap: Chile 1982-1997, (working paper, Universidad de Chile, 1999), and Claudio Sapelli, Education Policy Issues: The Right Policy Mix? (mimeo, Universidad Católica de Chile, 2000), comments by Pablo González and the references quoted in the papers.

financial intermediaries and regulating the financial system, thereby reducing the risks of another financial debacle.

3.13 *Gender equity.* In most cases Bank assistance improved gender equity indirectly, but the health and education programs contributed to doing it directly. Bank assistance indirectly benefited women because it expanded their opportunities via higher growth rates, and lower barriers to entry in various economic activities. Loans for health, which targeted primary health care and care for the elderly, primarily benefited women.

3.14 *Environmental sustainability*. Projects financed by the Bank demonstrated that changes in institutions and incentives can stimulate the private sector to deliver services and manage natural resources more economically and more effectively than the government. The Agricultural Irrigation Project showed that organizing water users paid handsome dividends; it improved water management and ensured the efficient operation and maintenance of infrastructure with little fiscal burden. The sustainability of investments increased when farmers managed the operation and maintenance tasks and paid fully for their cost. The project contributed to the sustainable development of the irrigation subsector, one of its principal objectives. Prior to the project, investments were selected ad hoc, but after the project only those investment proposals responding to farmers' demands were considered. An analysis of four subprojects financed found economic rates of return of above 20 percent.

3.15 The Environment Institutions Development Project responded, in part, to the problems mentioned in the sector work on environment. The project supported the creation of the National Environment Commission (CONAMA), together with the establishment of environmental units in the Central Bank and the Ministries of Economy, Industry and Mining. It also supported a comprehensive inventory of Chile’s forest resources, and the elaboration and implementation of a plan to deal with air pollution problems in metropolitan Santiago.

3.16 *Analytical services*. The Bank’s sector work for Chile has been of high quality, shaping and guiding the policy discussion and the lending program. Chile values the Bank’s joint product of lending with policy advice and analysis. While Chile has good research institutions and highly qualified public servants that can produce reports as good as the Bank’s, the government has valued highly the Bank’s technical work for its quality and balance. When in the mid-1990s the government decided to borrow less from the Bank, it requested the Bank to continue its sector work, to get a balanced perspective of policy issues under consideration. An understanding was reached that each year he Bank would prepare a study on a topic suggested by the Government and to hold an in-country seminar, at no cost to the country. Periodically, there have been discussions about the Bank charging a fee to cover the costs of preparing additional economic and sector work of interest to the government (beyond the study mentioned above)—but pricing was mentioned as an impediment. A fee based program of short-term technical assistance was launched in 1996. Initially, the focus was on Education. The program has not been renewed because it became too expensive once the Bank proposed full cost recovery pricing.[7]

3.17 *Participation and consultation.* The Bank prepared past CASs in consultation with the Government, but recent attempts to reach out to groups outside government have shown the difficulties of this effort. The Bank engaged groups linked to the opposition, trying to promote a debate around their views. The Chilean authorities objected on not being consulted on the process and asked to invite other nongovernment institutions for consultation. The Bank then invited a wider spectrum of nongovernment institutions to the consultations and gained a broader perspective on Chile's development constraints. The experience in this process illustrates the challenges staff face in engaging civil society and opposition groups in parallel to the policy discussions with democratically elected governments. This is a challenge common to many country programs. One way to diminish potential misunderstandings, could be for the Bank to discuss its consultation strategy in advance with the government.

Development Impact

3.18 While small in size, Bank assistance to Chile produced important benefits, especially early in the period. While the assistance obviously helped Chile, it is difficult to estimate how much of it accounts for the gains. Over 1985–1999 Bank lending averaged 0.7 percent of GDP, but in 1985–1990, when it mattered the most, lending reached 1.3 percent of GDP. The assistance brought additional financing from commercial banks and other international financial institutions, helping Chile to recover from the crisis and establish the foundation for high and sustained growth. Bank assistance also helped to raise incomes, reduce poverty, and improve human welfare. Poverty declined rapidly since 1985. Rapid growth explains most of the fall. Inasmuch as Bank assistance contributed to Chile's economic recovery and its sustained growth, it also contributed to reducing poverty.

3.19 The assistance also helped to shape new institutions and organizations, make public expenditures more efficient and to produce better social development. New institutions and organizations came in the form of better policies, an enhanced role for the private sector and redefinition of some functions of the public sector. The benefits of good and consistent policies became evident after the successful adjustment and stabilization, thereby creating a constituency for maintaining them. The private sector took over the provision of some services from the public sector (road maintenance and management of irrigation), while the public sector adopted the role of overseer and setter of policies. Governance in the financial and corporate sectors improved as a result of better supervision and regulation. Within the public sector, the roles of the different levels of government changed, with local and regional governments taking charge of service delivery (like education and health), and the central government in charge of setting policies.

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[7] Chile, together with the Gulf States, has paid for customized sector work of interest to the Government. The Bank has charged for services requested that were beyond those that could be funded through the administrative budget. See IBRD-CODE, *Fixing ESW-Where Are We?*, CODE 2000-76, July 11, 2000, page 35.

3.20 Good macroeconomic management created a climate conducive to reforming policies, institutions and organizations in the public sector. Creating property rights in water and letting farmers' associations manage irrigation districts increased the efficiency of water use, improved their management, and achieved full recovery of operating and maintenance expenses. Letting the private sector maintain roads led to lower maintenance costs and to better roads. As good policies brought faster growth and more government revenue, the government could have a more effective poverty reduction policy by spending more on health, education and safety nets.

Attribution

Bank Performance

3.21 The Bank's strategy in Chile succeeded in achieving its objectives. The Bank made a good diagnosis of the problems and risks involved, selected relevant objectives and executed the agreed program competently.

3.22 *Relations with Chile*. Prior to 1983, the government's top economic team was not interested in having a meaningful policy dialogue with the Bank. While the Bank submitted important memoranda to the authorities showing that some of their policies were unsustainable, they ignored or rejected them. The result was little Bank activity, a loss of contact with Bank staff, and an empty loan pipeline. When the crisis exploded Chile was not considered creditworthy, and while the IMF was active the Bank was not.

3.23 Bank involvement began in mid-1984. Senior management set clear conditions for Bank support: tight monetary and fiscal policies supplemented by a drive to promote savings and exports. Bank management thought that the consistency of Chilean efforts over time and the prospects of innovative policy actions justified a strong commitment to assist Chile's adjustment efforts. That support was crucial to the start of preparation for the first SAL. As the international financial community and the Bank's Board were ready to support an adjustment program, the Bank and Chile seized the opportunity.

3.24 *Risks*. While the Bank believed that Chile had to make an effort to improve its creditworthiness, it also believed that continued support for the program would bring two important gains. One would be an increase in the likelihood that the government would implement a comprehensive adjustment package. Another would be that Bank support would ensure continued assistance from commercial creditors. But the Bank also realized that commercial lenders could withdraw from the program and imperil its success. To mitigate the risk of withdrawal, the Bank made its loans contingent upon actions from commercial banks and the government. For the Bank to lend to Chile, private external creditors would have to commit to complement the Bank's financing. In addition, the Bank requested that Chile and its creditors agree beforehand on actions they would take to prevent a default in the event of a shortfall in export earnings.

3.25 Uncertain external factors (price of copper, interest rates) posed additional elements of risk. To reduce that risk, the Bank proposed that Chile should keep a sizeable reserve cushion, accumulating reserves when the external environment was favorable. A policy of this sort was adopted when Chile introduced a copper stabilization fund in January 1986.

3.26 The Bank took risks that have paid off well in terms of poverty reduction and Chile's high and sustained growth. When it resumed lending to Chile, the Bank understood the risks, and mitigated them by including in the adjustment loans conditions tailored to deal with them. Although the government took the correct measures to deal with the problems in 1985, they were insufficient to improve Chile's creditworthiness. The situation in the financial sector was particularly difficult. Bank staff had found that the size of the problem was large, and that it would take one or two generations to solve it. These findings strengthened the hands of those inside the Bank who believed that the measures to be taken had to go further than what the government had already done. They believed that restraints on domestic demand should continue, that investment in export activities should get more incentives, that the Central Bank should stop its debt rescheduling practices with commercial banks, and that the government should adopt policies to increase corporate savings. To meet these concerns, the loans included conditions tailored to achieve these objectives.

3.27 *Development strategy.* The World Bank helped to design essential components of Chile's Structural Adjustment Program (SAP) in 1985–87. The key contributions of the Bank were to instill a medium term dimension to economic policy and to make that adjustment possible through direct and catalytic effects on financing. In addition to adjustment lending, the Bank selected areas where it could help effectively: energy, roads, ports, agriculture, irrigation and social sectors. But sometimes the results were not as good as desired because the Borrower and the Bank did not identify technical problems correctly (soil conditions in the ports of San Antonio and Valparaiso) or because of the Bank's excessive confidence on the government's ownership of the proposed reforms (housing sector and industrial credit programs of Corporación de Fomento).

Borrower Performance

3.28 The Borrower made a good diagnosis of the problems and the risks of inaction or muddling through, selected the relevant problems for solution and the right solutions for them, and executed the agreed program competently. Three reasons stand out for the good diagnosis and management. First, Chile has had highly qualified public servants over the period of assistance. Second, the government owned the reforms and the programs supported by the Bank. Third, the government abided by its commitments in the adjustment and investment loans fundamental for Chile's growth and economic recovery. In a few instances the Borrower fell short, when the costs of inaction were small (small farmers credit), or when strong forces opposed the commitments (housing loans). In a few cases, failure to identify technical problems in advance led to higher project costs and loan cancellations (Valparaiso water supply and sewerage project).

3.29 Overall, the government managed the adjustment program and the projects well. The quick and deep adjustment substantially increased public savings, making it possible for the government to use its own funds and cancel portions of loans. In the 27 closed projects, the government did not use 10 percent of the Bank's commitments. In an electricity generation project, the executing agency completed the project fifteen months ahead of schedule at a cost almost half the appraisal estimate.

3.30 Finally, the government and the Bank shared the objectives of the assistance. Both wanted to promote growth, reduce poverty and improve the social welfare of Chileans. Both considered the private sector fundamental for development. Both believed that better governance and accountability were key for a stable and more democratic society. And both selected themes for Bank assistance that became forerunners of the Bank's Comprehensive Development Framework.

IMF, IDB, IFC, and MIGA

3.31 The IMF supported Chile's 1985–87 program with a three-year SDR 750 million EFF. During preparation of the EFF and the Bank's structural adjustment loans I and II there was extremely close cooperation between the Fund and Bank staff, to ensure consistency between stabilization and structural adjustment measures. The Bank and Fund were in agreement both on matters of general approach and on many specific measures. Bank and Fund staff also worked together in supporting the government's presentation to commercial banks for Chile's 1985–86 external debt negotiations. Chile used the IMF's assistance well, but since 1987 it has not needed the assistance.

3.32 IDB's lending over the period 1985–1999 reached about $2.5 billion (on closed loans) and in the 1980s it supported similar programs to those supported by the Bank, as they dealt with Chile's most pressing needs, adjustment and recovery of infrastructure basic for growth. During the 1990s the emphasis of IDB's program supplemented the Bank's lending for education and urban development, and moved into areas like industrial development and development of science and technology. The Bank's and IDB's lending have supported each other well , and their lending has responded both to Chile's needs and to what each institution could provide better at the moment.

3.33 Chile has created conditions for developing the private sector that made it possible for IFC and MIGA to play a role in promoting the sector and insuring investments. IFC's net investment over the period reached about $200 million, and MIGA guaranteed liabilities for about $165 million in 1990–99. IFC was active in 1990 and 1991, but since then its activities have been small. IBRD helped in 1985 to wrap up the structural adjustment loan (SAL I) by guaranteeing half of a $300 million in a syndicated B-loan cofinancing for the highway sector. Information on recent (1998–00) activities by IFC and MIGA shows that IFC has approved investments of about $40 million per year for infrastructure and mining and MIGA's guarantees have averaged about $17 million per year.

Exogenous Factors

3.34 Favorable external shocks made Chile perform better than expected during the period of structural adjustment programs. An OED audit of the three adjustment loans found that better terms of trade and lower interest rates pushed the rate of growth up, and helped the government to more effectively manage public finances (both revenue and expenditure). The report found that nearly 40 percent of cumulative GDP growth between

1984 and 1988 came from better terms of trade (28 percent) and lower international interest rates (12 percent).

3.35 Chile has developed good policies and strong institutions that make it less vulnerable to shocks. But the recession of 1998–99 has also shown that, still, external events can produce undesirable consequences on employment, poverty and social unrest. These events point out some of the latent dangers present for the Chilean economy and brings to the forefront areas where Bank assistance could be useful.

4. Lessons, Conclusions, and Recommendations

Lessons

4.1 Five lessons stand out from the Bank's experience in Chile. *First*, the Bank can be more effective in promoting development if it supports programs and projects in countries committed to stable macroeconomic policies. *Second*, the Bank could be more effective by granting successive structural adjustment loans with few, but substantive, conditions rather than one extended loan with multiple conditions. *Third*, changes in institutions and incentives can bring the private sector to deliver services and to manage natural resources more efficiently and more effectively than the government. *Fourth*, when the Bank lacks sufficient information about the consequences of legislative and regulatory reforms, it should promote and support pilot tests and small demonstrations of the proposed reforms. Good results from pilot tests become a powerful tool to convince stakeholders of the benefits of reforms. *Fifth*, in a country with sophisticated economic management the Bank should abstain from insisting on reforming policies if ownership for reforms is weak.

Conclusions

4.2 Bank assistance and Chile's use of it have been remarkable. The government's determination to take difficult decisions and stay the course constitute an outstanding example of how to move out of the depth of a crisis into economic prosperity. The Bank was instrumental in restoring Chile's access to international markets and in supporting measures that ensured an effective use of the international assistance received. Bank management and the government should be commended for this record.

4.3 OED rates the outcome of the Bank's assistance strategy during 1985–00 as highly satisfactory. Institutional development impact is rated as substantial, and time has demonstrated the sustainability of Bank assistance programs. The present institutions and policies in Chile are likely to continue but if external shocks lead to economic recession and to social unrest, some may be weakened and lose effectiveness. This perspective frames the view about where Bank assistance might be useful.

4.4 Chile's institutions and level of development place it steps ahead of the typical middle-income country. The Bank's role involves attracting and retaining private capital, promoting high-quality social spending, and helping to manage volatile capital flows.

The Bank must also help to close policy and institutional gaps that prevent a better economic performance. Important issues remain to be addressed: reducing poverty and inequality, mitigating the consequences of external shocks, improving regulations for public utilities, and enhancing the institutions that promote competition. To strengthen its fight against poverty, and to reduce the losses to lower income groups from economic slumps, the government plans to strengthen its social policies. The Bank can still play a role in assisting Chile to implement these measures

Recommendations

4.5 In its future activities in Chile, the Bank could play two primary roles. First, to help advance the social agenda, focusing its assistance on health, education, and safety net programs. Second, to help cope with the potential negative impact of external shocks, to which Chile's economy is particularly sensitive in view of its large external sector. The Bank—together with other international financial institutions—could provide financing and insurance mechanisms that would help reduce the variability of expenditure and of income over time.

4.6 High growth rates, good institutions and high per capita income suggest that graduation might come up for discussion. OED believes that such decision may be premature given Chile's vulnerability to external shocks. The experience of other countries that have graduated and returned for Bank assistance illustrates the benefits of a gradual withdrawal, as vulnerability declines. OED also believes that, although financing needs may decline, the Bank should continue to be involved through policy advice and economic and sector work.

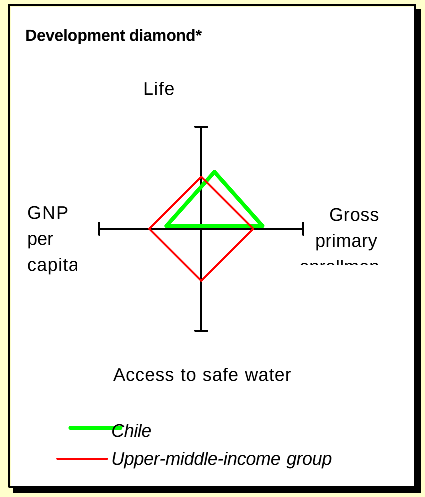
4.7 As Chile grows richer and the Bank's involvement in the country declines, the Bank needs to consider ways to respond to Government requests for policy advice and economic and sector work. The Bank should be ready to prepare short policy notes drawing on its global knowledge. Also, beyond the current understanding of preparing one study per year, the Bank should consider providing for a fee, specific technical assistance and specialized advice at the authorities' request. The fees would have to be set taking into account the opportunity cost to the borrower, even if this means only partial cost recovery for the Bank. In most cases, this would also be justified by the fact that these studies would also allow the Bank to maintain its knowledge base and to learn from the Chilean experience.

Annex – Statistical Information

Annex Table 1. Chile at a glance

POVERTY and SOCIAL

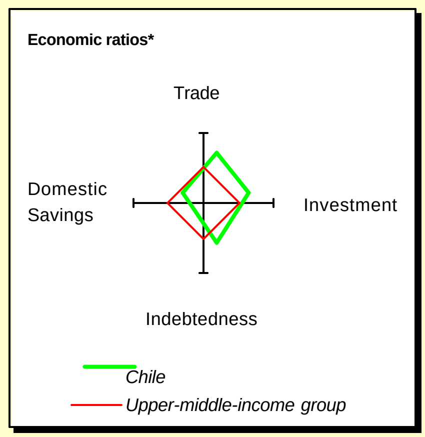
	Chile	Latin America & Carib.	Upper-middle-income
1999			
Population, mid-year *(millions)*	15.0	509	573
GNP per capita *(Atlas method, US$)*	4,640	3,840	4,900
GNP *(Atlas method, US$ billions)*	69.6	1,955	2,811
Average annual growth, 1993-99			
Population *(%)*	1.4	1.6	1.4
Labor force *(%)*	2.3	2.5	2.1
Most recent estimate (latest year available, 1993-99)			
Poverty *(% of population below national poverty line)*	21	..	..
Urban population *(% of total population)*	85	75	76
Life expectancy at birth *(years)*	75	70	70
Infant mortality *(per 1,000 live births)*	10	31	27
Child malnutrition *(% of children under 5)*	1	8	7
Access to improved water source *(% of population)*	..	75	78
Illiteracy *(% of population age 15+)*	4	12	10
Gross primary enrollment *(% of school-age population)*	101	113	109
Male	103	..	..
Female	100	..	..



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

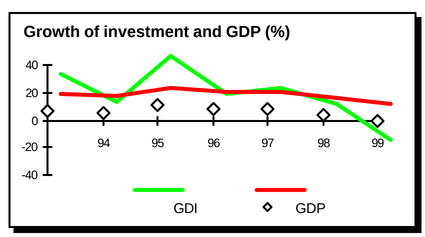
	1979	1989	1998	1999
GDP *(US$ billions)*	20.7	27.5	72.8	67.5
Gross domestic investment/GDP	21.1	25.1	26.5	21.1
Exports of goods and services/GDP	23.3	35.9	26.9	29.1
Gross domestic savings/GDP	18.2	29.8	22.4	23.0
Gross national savings/GDP	15.2	23.3	20.8	21.0
Current account balance/GDP	-5.7	-2.5	-5.7	-0.1
Interest payments/GDP	2.8	5.9	1.5	1.6
Total debt/GDP	45.2	65.5	43.5	50.4
Total debt service/exports	..	27.7	17.7	17.4
Present value of debt/GDP	..	..	52.0	..
Present value of debt/exports	..	..	185.4	..

	1979-89	1989-99	1998	1999	1999-03
(average annual growth)					
GDP	3.5	7.2	3.4	-1.1	4.7
GNP per capita	1.0	6.0	7.0	-2.1	4.5
Exports of goods and services	5.9	9.7	5.9	6.9	8.5

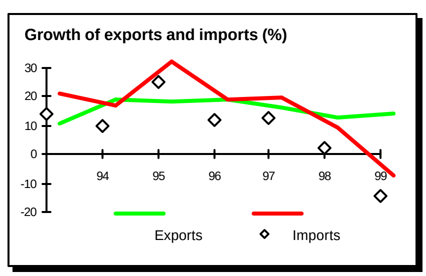


STRUCTURE of the ECONOMY

	1979	1989	1998	1999
(% of GDP)				
Agriculture	7.4	8.7	8.4	8.4
Industry	37.9	41.8	34.2	34.2
Manufacturing	21.6	18.9	16.4	16.4
Services	54.7	49.5	57.4	57.4
Private consumption	67.5	60.1	66.6	65.2
General government consumption	14.3	10.1	11.1	11.8
Imports of goods and services	26.1	31.3	31.0	27.3



	1979-89	1989-99	1998	1999
(average annual growth)				
Agriculture	5.0	1.5	3.0	-1.2
Industry	3.0	6.2	0.6	2.8
Manufacturing	2.4	5.0	-1.5	-0.7
Services	2.2	7.6	5.1	-0.8
Private consumption	1.1	7.9	3.5	-3.0
General government consumption	-0.4	3.8	3.9	2.5
Gross domestic investment	5.9	9.9	-1.4	-26.2
Imports of goods and services	0.0	11.9	2.1	-14.3
Gross national product	2.6	7.5	6.2	0.8



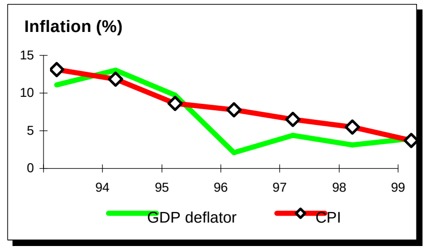
Note: 1999 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Source: World Bank SIMA Database as of 08/13/2001

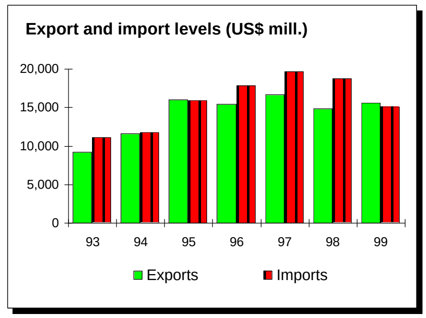
PRICES and GOVERNMENT FINANCE

	1979	1989	1998	1999
Domestic prices				
(% change)				
Consumer prices	33.4	17.0	5.1	3.3
Implicit GDP deflator	45.7	12.4	2.7	3.6
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	23.2	24.9	24.1
Current budget balance	..	3.4	4.3	1.8
Overall surplus/deficit	..	1.5	0.3	-2.3



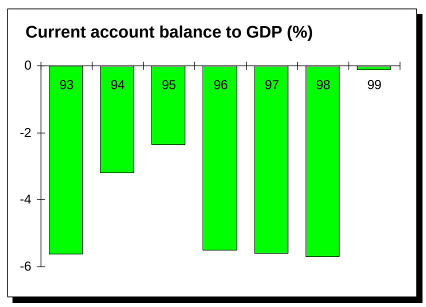
TRADE

	1979	1989	1998	1999
(US$ millions)				
Total exports (fob)	3,836	8,078	14,830	15,616
Copper	1,888	4,021	5,332	5,889
Fruits	265	995	1,261	1,212
Manufactures	1,416	2,613	6,749	7,152
Total imports (cif)	4,708	7,486	18,779	15,137
Food	521	253	..	..
Fuel and energy	981	870	1,492	1,799
Capital goods	946	1,901	5,112	3,270
Export price index *(1995=100)*	..	82	68	67
Import price index *(1995=100)*	..	84	112	111
Terms of trade *(1995=100)*	..	98	61	60



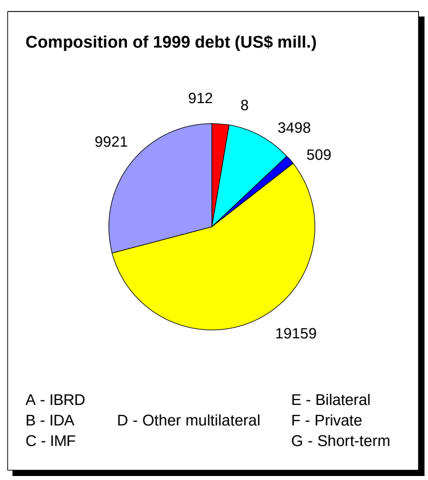
BALANCE of PAYMENTS

	1979	1989	1998	1999
(US$ millions)				
Exports of goods and services	3,836	9,614	18,949	19,406
Imports of goods and services	4,430	8,607	21,580	18,056
Resource balance	-594	1,007	-2,631	1,350
Net income	-675	-1,923	-1,975	-1,881
Net current transfers	80	226	463	453
Current account balance	-1,189	-690	-4,143	-78
Financing items (net)	2,236	1,127	2,077	-605
Changes in net reserves	-1,047	-437	2,066	683
Memo:				
Reserves including gold *(US$ millions)*	2,764	2,948	15,775	15,013
Conversion rate *(DEC, local/US$)*	37.2	267.2	446.2	508.8



EXTERNAL DEBT and RESOURCE FLOWS

	1979	1989	1998	1999
(US$ millions)				
Total debt outstanding and disbursed	9,361	18,032	31,691	34,007
IBRD	158	1,618	945	912
IDA	21	15	9	8
Total debt service	2,089	2,668	4,481	3,930
IBRD	21	224	163	182
IDA	0	1	1	0
Composition of net resource flows				
Official grants	16	42	25	0
Official creditors	-236	225	-87	-227
Private creditors	1,703	447	4,528	-1,890
Foreign direct investment	244	1,289	4,638	4,366
Portfolio equity	0	230	87	130
World Bank program				
Commitments	0	574	0	5
Disbursements	13	205	71	43
Principal repayments	7	108	106	111
Net flows	6	96	-35	-68
Interest payments	15	116	59	71
Net transfers	-9	-20	-94	-139



Annex Table 2A. Chile: Key Economic and Social Indicators, 1985-00

																	1985-2000 Average				
Series Name	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*Chile*	*Argentina*	*Czech Republic*	*Hungary*	*Uruguay*
GDP growth (annual %)	7.1	5.6	6.6	7.3	10.6	3.7	8.0	12.3	7.0	5.7	10.6	7.4	7.4	3.9	-1.1	5.4	6.5	2.4	0.0	0.7	3.2
GNI per capita, Atlas method (current US$)	1,420	1,420	1,570	1,820	2,060	2,190	2,420	2,900	3,170	3,410	4,040	4,560	4,970	4,880	4,600	4,600	4,600	5,668	4,773	3,439	4,145
GNI per capita, PPP (current international $)	2,980	3,300	3,780	4,260	4,560	4,680	5,100	5,830	6,250	6,620	7,440	7,970	8,440	8,560	8,480	9,110	9,110	9,721	12,055	9,153	7,019
Agriculture, value added (% of GDP)	7.6	9.0	9.2	8.9	8.7	8.7	9.9	9.9	9.2	9.4	9.2	9.0	8.4	8.4	8.4	8.4	8.9	6.6	5.4	11.2	9.2
Manufacturing, value added (% of GDP)	16.2	18.7	18.4	18.9	18.9	19.6	20.5	20.5	18.5	18.4	18.1	17.5	17.2	16.4	16.4	16.4	18.2	22.9	0.0	23.4	23.4
Services, etc., value added (% of GDP)	54.8	54.0	52.8	48.0	49.5	49.8	50.0	52.0	55.0	55.0	55.5	55.8	56.5	57.4	57.4	57.4	53.8	60.7	49.1	50.9	59.1
Exports of goods and services (% of GDP)	28.1	29.1	30.3	34.6	35.9	34.6	33.2	30.7	27.5	29.3	30.5	28.7	28.1	26.8	29.0	30.7	30.5	9.5	54.6	37.9	21.2
Imports of goods and services (% of GDP)	25.7	26.0	27.4	27.6	31.3	31.4	28.7	29.3	29.9	28.0	28.7	30.9	30.9	30.9	27.2	29.6	29.0	8.8	55.7	38.8	19.5
Current account balance (% of GDP)	-8.6	-6.7	-3.6	-1.0	-2.5	-1.6	-0.3	-2.3	-5.7	-3.1	-2.1	-5.1	-5.0	-5.7	-0.1	..	-3.6	-2.4	-3.1	-3.5	-0.8
Total debt service (% of exports of goods and services)	48.4	40.6	36.3	25.8	27.1	25.9	23.2	20.8	23.3	19.7	25.4	30.9	20.2	22.3	25.4	..	27.7	47.0	10.7	34.9	27.2
Gross international reserves in months of imports	5.7	5.4	5.5	5.4	4.8	7.1	7.7	8.2	8.2	9.8	8.1	7.8	8.2	7.8	8.4	..	7.2	5.3	4.0	3.7	7.1
Gross domestic savings (% of GDP)	19.6	21.9	25.1	29.7	29.8	28.4	27.0	25.2	24.1	25.4	27.6	24.7	24.5	22.3	22.9	23.5	25.1	18.3	28.0	23.9	16.2
Inflation, consumer prices (annual %)	29.5	20.6	19.9	14.7	17.0	26.0	21.8	15.4	12.7	11.4	8.2	7.4	6.1	5.1	3.3	3.8	13.9	427.8	7.6	17.8	53.0
Current revenue, excluding grants (% of GDP)	28.1	26.7	25.2	22.3	21.7	20.6	22.1	22.9	23.2	22.5	22.2	23.4	23.3	22.9	22.5	..	23.3	13.0	34.8	46.3	26.2
Expenditure, total (% of GDP)	30.4	28.3	24.9	23.2	21.4	20.4	21.0	20.8	21.4	20.9	19.9	21.2	21.2	22.5	23.9	..	22.8	13.9	36.3	51.4	27.4
Overall budget deficit, including grants (% of GDP)	-2.3	-0.9	1.9	1.0	1.5	0.8	1.5	2.3	2.0	1.7	2.6	2.3	2.0	0.4	-1.5	..	1.0	-1.3	-0.1	-3.1	-1.2
Population, total m	12.0	12.2	12.4	12.7	12.9	13.1	13.3	13.5	13.8	14.0	14.2	14.4	14.6	14.8	15.0	15.2	13.6	33.7	10.3	10.3	3.2
Population growth (annual %)	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.5	1.5	1.4	1.4	1.3	1.3	1.6	1.4	0.0	-0.4	0.7
Urban population (% of total)	82.6	82.7	82.9	83.0	83.2	83.3	83.5	83.7	84.0	84.2	84.4	84.7	84.9	85.2	85.4	85.7	84.0	87.4	74.7	62.2	89.3
Illiteracy rate, adult total (% of people ages 15 and above)	7.0	6.8	6.6	6.3	6.1	5.9	5.8	5.6	5.4	5.2	5.1	4.9	4.7	4.6	4.4	4.3	5.5	4.0	0.0	0.9	3.1
School enrollment, primary (% gross)	105.0	104.4	102.4	102.0	100.7	99.9	100.7	99.0	98.6	99.3	98.8	101.3	..	..	..	..	101.0	108.9	98.9	98.5	107.7
Immunization, DPT (% of children under 12 months)	91.0	92.0	93.0	96.0	95.0	97.0	94.0	90.0	89.0	92.0	94.0	91.0	96.0	92.0	94.0	..	93.1	77.9	97.7	99.5	86.3
Improved water source (% of population with access)	86.0	..	..	..	..	90.0	..	85.0	..	..	..	..	..	..	..	94.0	88.8	66.3	100.0	95.1	87.6
Sanitation (% of population with access)	67.0	..	..	..	..	97.0	..	..	..	..	..	..	..	..	..	97.0	87.0	76.3	0.0	99.0	71.7
Life expectancy at birth, total (years)	71.9	..	72.7	..	..	73.7	..	74.4	..	..	74.9	..	75.2	..	75.5	..	74.0	72.1	72.7	69.8	73.0
Mortality rate, infant (per 1,000 live births)	19.5	19.1	18.0	18.9	17.1	16.0	14.6	14.3	13.1	12.0	11.1	11.1	10.5	10.3	10.0	..	14.4	23.2	8.8	13.7	19.6

Source: World Bank SIMA database, as of 08/13/2001

Annex Table 2B. Chile Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1993-99	Latin America & Carib.	Upper-middle-income
POPULATION					
Total population, mid-year (millions)	10.3	12.0	15.0	508.2	571.5
Growth rate (% annual average for period)	1.7	1.6	1.4	1.6	1.4
Urban population (% of population)	78.4	82.6	85.4	74.9	75.4
Total fertility rate (births per woman)	3.2	2.7	2.2	2.6	2.4
POVERTY					
(% of population)					
National headcount index	..	..	20.5	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNI per capita (US$)	1,110	1,420	4,630	3,800	4,870
Consumer price index (1995=100)	1	21	124	140	131
Food price index (1995=100)	..	19	118	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Share of income or consumption					
Gini index	..	..	57.5	..	..
Lowest quintile (% of income or consumption)	..	..	3.4	..	..
Highest quintile (% of income or consumption)	..	..	62.0	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	2.7	3.3	3.3
Education (% of GNI)	4.1	4.4	3.6	3.6	5.0
Social security and welfare (% of GDP)	8.2	11.8	8.3	7.4	7.9
Net primary school enrollment rate					
(% of age group)					
Total	94	89	89	91	94
Male	94	90	91	..	..
Female	95	90	88	..	..
Access to an improved water source					
(% of population)					
Total	..	86	94	85	87
Urban	..	97	99	93	94
Rural	..	22	66	62	68
Immunization rate					
(% under 12 months)					
Measles	..	92	95	90	90
DPT	..	91	94	87	88
Child malnutrition (% under 5 years)	..	2	1	9	..
Life expectancy at birth					
(years)					
Total	66	72	76	70	69
Male	63	69	73	67	66
Female	69	75	79	73	73
Mortality					
Infant (per 1,000 live births)	55	20	10	30	27
Under 5 (per 1,000 live births)	96	35	12	38	34
Adult (15-59)					
Male (per 1,000 population)	301	218	140	207	233
Female (per 1,000 population)	177	120	72	122	143
Maternal (per 100,000 live births)	..	..	20	..	..

Annex Table 3A. External Assistance to Chile (US$ million)*

Donors	*1960-79*	*1980-90*	*1991-98*	*1996*	*1997*	*1998*
Bilateral	1,435	3,924	18,319	2,407	4,747	4,767
Multilateral	432	3,239	-2,500	-579	-423	-111
of which IBRD	112	1,336	-968	-188	-25	-35
of which IDA	10	-8	-6	-1	-1	-1
of which IDB	96	1,656	-1,674	-403	-344	-44
Other	275	1,509	7,672	665	2,729	1,607
Total	1,867	7,169	15,819	1,827	4,324	4,656
Memo item:						
GDP at market prices (current US$ million)				69,217	77,084	76,322

Source: Geographical Distribution of Financial Flows to Aid Recipients 1994-1998, OECD, World Bank SIMA database as of December 5, 2000.

* Net Receipts from all donors.

Annex Table 3B. World Bank Commitments by Sectors for FY85-00 (US$ million)

Sector Group	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1999*	*Total*
Adjustment Lending	0	250	250	250	0	0	0	0	0	0	0	0	0	750
Agriculture	56.0							95.0	45.0			15.0		**247.0**
Education								170.0			35.0		150.4	**355.4**
Electric Pwr & Engy.			116.5											**116.5**
Environment									11.5					**11.5**
Finance		100.0			75.0	130.0								**305.0**
Hlth, Nutn & Popultn								27.0	90.0					**117.0**
Industry		40.0												**40.0**
Multisector		250.0	250.0	250.0										**750.0**
Public Sector Mgmt.	11.0							17.2					10.1	**38.3**
Transportation	140.0				75.0	224.0		71.0			120.0			**800.0**
Urban Development	80.0				200.0					10.0				**290.0**
Water Supply & Santn		66.0					50.0							**154.0**
Total	**287.0**	**456.0**	**366.5**	**250.0**	**350.0**	**354.0**	**50.0**	**380.2**	**146.5**	**10.0**	**155.0**	**15.0**	**160.5**	**3,224.8**

Source: World Bank Business Warehouse as of 08/13/2001

Annex Table 4. ESW and CAS List for Chile, 1985-00

Report Title	*Report Date*	*Report #*
Economic Reports		
Chile - An economic memorandum (Vol.1)	September 1, 1984	5099
Chile - Adjustment and recovery (Vol.1)	December 21, 1987	6726
Chile - Social development progress in Chile: Achievements and challenges	April 17, 1990	8550
Chile - Consolidating economic growth (Vol.1)	August 31, 1990	8549
Chile - Current macroeconomic situation and prospects (Vol.1)	March 3, 1992	9851
Chile - Managing environmental problems: Economic analysis of selected issues	December 19, 1994	13061
Chile - Economic update, 1990-93	December 29, 1994	12903
Chile - Poverty and income distribution in a high-growth economy : 1987-1995 (Vol. 2)	November 25, 1997	16377
Sector Reports		
Chile - The agricultural sector: Pricing policies and investment priorities	January 1, 1985	5351
Sector issues paper - land transport: Liberalization process, current problems and possible solutions	June 24, 1986	6314
Poverty in Latin America : the impact of depression (Vol.1)	August 6, 1986	6369
Chile - Forest industries sub-sector study (Vol.1)	August 8, 1986	6380
Chile - Water supply and sewerage sector study	3/0/87	6614
West coast container shipping study: South America	May 29, 1987	6685
Chile - Energy sector review	August 1, 1988	7129
Chile - Industrial finance: Sector report	January 31, 1989	7737
Chile - Mining sector memorandum	June 15, 1989	7509
Chile - Sustaining Growth: An agricultureal sector review	June 29, 1990	8759
The Bank's role in facilitating the financing of private investment in infrastructure in Chile: An issues paper	April 7, 1992	10570
Chile - Subnational government finance (Vol.1)	October 13, 1992	10580
Chile - Infrastructure strategy note.	November 1, 1992	11234
Chile - Subnational government finance (Vol.1)	February 1, 1994	12680
Chile - Issues for Chile's future: a policy note	July 26, 1994	13405
Chile - Strategy for rural areas : enhancing agricultural competitiveness and alleviating rural poverty (Vol.1)	August 18, 1994	12776
Chile - The adult health policy challenge (Vol.1)	November 10, 1994	12681
Chile - Estrategia para elevar la competitividad agricola y aliviar la pobreza rural (Vol.1)	May 1, 1995	14561
Chile - The adult health policy challenge (Vol.1)	May 1, 1995	14452
Chile - Health insurance issues: old age and catastrophic health costs.	August 31, 2000	19940
Country Assistance Strategy Documents		
Chile-Country Program Paper	March 12, 1986	
Chile-Country Strategy Paper	April 5, 1988	
Chile-Country Strategy Paper	January 21, 1993	
Chile-Country Assistance Strategy	April 17, 1995	14370-CH

Source: Imagebank.

Annex Table 5A. OED and QAG Ratings for Chile and Comparator Countries

I. OED Ratings

Country	*Total evaluated ($million)*	*of which Adjustment ($million)*	*Outcome Satisfactory (percent)*		*Inst. dev. impact - Substantial (percent)*		*Sustainability Likely (percent)*	
			Total	*Adjustment*	*Total*	*Adjustment*	*Total*	*Adjustment*
Before 1991								
Bankwide	202,728	34,555	72	68	34	38	54	56
Latin America and Caribbean	52,369	11,909	67	73	34	46	58	75
Chile	***2,334***	***750***	***91***	***100***	***66***	***100***	***90***	***100***
Argentina	3,561	1,146	39	26	27	31	69	69
Czech Republic								
Hungary	2,278	488	98	100	59	59	94	100
Uruguay	866	280	89	79	51	79	78	79
1991-2000								
World	76,267	42,112	86	91	48	51	68	72
Latin America and Caribbean	19,709	11,121	85	88	56	61	71	75
Chile	***405***		***77***		***39***		***80***	
Argentina	4,880	3,900	98	100	74	78	91	92
Czech Republic	662	450	100	100	98	100	100	100
Hungary	1,231	750	94	100	94	100	97	100
Uruguay	172	165	100	100	96	100	42	39

1) The Institutional Development Impact and Sustainability ratings have been in use only since FY89. Hence, the data for these two ratings for the period before FY91 apply for smaller levels of total net commitment than shown in columns 2 and 3 of outcome.
2) *Source:* OED ratings database as of December 5, 2000.

II. QAG Ratings

Country	*No. of projects*	*Net commitments ($million)*	*Projects at risk (percent)*	*Commitments at risk (percent)*
Bankwide	1,582	106,877	13	12
LCR	314	22,997	12	13
Chile	***5***	***287***	***20***	***4***
Argentina	40	4,646	18	14
Czech Rep	..	..	..	..
Hungary	3	107	0	0
Uruguay	9	383	0	0

Annex Table 5B. Chile: Ratings for Projects Approved Between 1985 and 1999

Loan number	*Sector*	*Subsector*	*Project description*	*Disburse-ments*	*Outcome*	*Sustain-ability*	*Institutional dev impact*	*Quality at entry*	*Appraisal rate of return*	*Evaluation rate of return*
	Adjustment									
2625	Multisector	Economic Management	Structural adjustment loan	250.0	Satisfactory	Likely	Substantial	Not Rated		
2767	Multisector	Economic Management	Second structural adjustment	250.0	Satisfactory	Likely	Substantial	Not Rated		
2892	Multisector	Economic Management	Third structural adjustment loan	250.0	Satisfactory	Likely	Substantial	Not Rated		
	Agriculture									
3528	Agriculture	Irrigation	Irrigation Development Project	14.0	Moderately Satisfactory	Uncertain	Substantial			
2481	Agriculture	Agricultural Credit	Agricultural services and credit project	55.8	Satisfactory	Uncertain	Modest	Satisfactory	41	
3473	Agriculture	Agricultural Credit	Small Farmer Services	58.8	Unsatisfactory	Unlikely	Negligible	Unsatisfactory		
	Energy									
2833	Electric Power & Other Energy	Distribution & Transmission	Alto Jahuel - Polpaico Transmission	21.5	Highly Satisfactory	Likely	Negligible	Satisfactory	11.2	
2832	Electric Power & Other Energy	Hydro	Pehuenche Hydroelectric	40.4	Highly Satisfactory	Likely	Negligible	Satisfactory	11.2	
	Industry and Finance									
3143	Finance	Financial Adjustment	Financial Markets	90.0	Satisfactory	Likely	Substantial	Highly Satisfactory		
3053	Finance	Other Finance	Industrial Finance 2	75.0	Satisfactory	Likely	Modest	Satisfactory		
2606	Finance	Other Finance	Indus. Fin. Restructuring	100.0	Moderately Satisfactory	Likely	Modest	Unsatisfactory		
2613	Industry	Small Scale Enterprise	Small & Medium Industry	40.0	Moderately Satisfactory	Likely	Modest	Unsatisfactory		
	Education and Health									
3410	Education	Primary Education	Primary Education Improvement	120.8	Highly Satisfactory	Highly Likely	Substantial	Highly Satisfactory		
3527	Population, Health & Nutrition	Other Population, Health & Nutrition	Health Sector Reform	90.0	Satisfactory	Likely	Substantial	Satisfactory		
3427	Population, Health & Nutrition	Population, Health & Nutrition	Tech. Assist. & Hospital Rehabilitation	27.0	Satisfactory	Likely	Substantial	Satisfactory		
	Transportation									
2589	Transportation	Highways	First Road sector project	140.0	Highly Satisfactory	Likely	Substantial	Highly Satisfactory	57.5	68.5
3120	Transportation	Highways	Second Road Sector	180.2	Highly Satisfactory	Likely	Substantial	Highly Satisfactory	40.5	40.5
3028	Transportation	Urban Transport	Urban Streets & Transport	74.0	Satisfactory	Uncertain	Modest	Satisfactory	26	
3426	Transportation	Ports & Waterways	Transport Infrastructure	26.3	Satisfactory	Likely	Modest	Satisfactory	50	42
	Urban Development									
3668	Urban Development	Urban Management	Municipal Development Pilot	9.0	Satisfactory	Uncertain	Modest	Satisfactory		
2482	Urban Development	Urban Housing	(Housing Sector 1) Public Sector Housing	80.0	Satisfactory	Uncertain	Negligible	Not Rated		
3030	Urban Development	Urban Housing	Housing Sector 2	200.0	Unsatisfactory	Likely	Negligible	Satisfactory	16	
	Water Supply and Sanitation									
2651	Water Supply & Sanitation	Urban Water Supply	Santiago Water Supply 2	53.7	Highly Satisfactory	Likely	Substantial	Satisfactory	16.2	4.4
	Water Supply & Sanitation	Urban Water Supply	Valparaiso water supply reconstruction project	6.0	Satisfactory	Likely	Substantial	Unsatisfactory		
3331	Water Supply & Sanitation	Urban Water Supply	Valparaiso Water Supply & Sewerage 2	33.2	Unsatisfactory	Likely	Modest	Unsatisfactory	14.6	7
	Public Sector Management									
3411	Public Sector Management	Public Sector Management	Public Sector Management 2	15.3	Highly Satisfactory	Likely	Substantial	Highly Satisfactory		
	Public Sector Management	Institutional Development	Public Sector Management Technical Assistance	6.4	Satisfactory	Likely	Substantial	Not Rated		
	Environment									
3529	Environment	Environmental Institutions	Environmental Institutions Development	11.5	Satisfactory	Highly Likely	Substantial	Satisfactory		n.a.

Annex Table 5C. Projects at Risk

Proj ID	# Proj	Net Comm Amt	# Act Problem Proj	% Act Problem Project	# Potential Prob Proj	% Potential Prob Proj	# Proj At Risk	% At Risk	Comm At Risk	% Commit At Risk
CL MUNIC DEVT II	1	10.1	1	100.0	0	0.0	1	100.0	10.1	100.0
CL-HIGHER EDUCATION	1	145.4	0	0.0	0	0.0	0	0.0	0.0	0.0
CL-MILLENNIUM INSTITUTIONS (LIL)	1	5.0	0	0.0	0	0.0	0	0.0	0.0	0.0
MONTREAL PROTOCOL	1	6.5	0	0.0	0	0.0	0	0.0	0.0	0.0
THIRD RD SCTR	1	120.0	0	0.0	0	0.0	0	0.0	0.0	0.0
Result	**5**	**287.0**	**1**	**20.0**	**0**	**0.0**	**1**	**20.0**	**10.1**	**3.5**

Annex Table 6. Costs of Bank Program for Chile and Comparator Countries, FY91-99

A. Costs

	Costs ($ million)				***Distribution (percent)***			
Regions/ Countries	*Lending completion costs*	*Supervision costs*	*ESW completion costs*	*Total Costs*	*Lending*	*Supervision*	*ESW*	*Total*
Argentina	19.4	16.4	5.1	40.9	47%	40%	12%	100%
Chile	***5.1***	***4.3***	***1.6***	***11.0***	***46%***	***39%***	***15%***	***100%***
Czech Republic	0.7	0.8	0.7	2.2	32%	36%	32%	100%
Hungary	9.9	6.9	4.1	20.9	47%	33%	20%	100%
Uruguay	2.3	3.5	1.2	7.0	33%	50%	17%	100%
Latin America and Caribbean	163.1	152.1	65.6	380.8	43%	40%	17%	100%
Bank wide	979.1	897.9	415.1	2292.1	43%	39%	18%	100%

B. Efficiency Table, 1991-99

Regions/ Countries	*Total costs ($million)*	*Number of projects*	*Net commitment ($million)*	*Net commitment for satisf. & nonrisky projects ($million)*	*Average project size ($million)*	*Average costs per project ($thousand)*	*Average costs per $1000 of net commitment (dollars)*	*Average costs per $1000 of net commit. for satisf & nonrisky projects (dollars)*
Argentina	41	64	11,870	10,531	185	639	3	4
Chile	***11***	***16***	***725***	***491***	***45***	***688***	***15***	***22***
Czech Republic	2	3	667	460	222	733	3	5
Hungary	21	17	1,646	1,126	97	1,229	13	19
Uruguay	7	11	551	551	50	636	13	13
Latin America and Caribbean	381	464	46,957	37,413	101	821	8	10
Bankwide	2,292	2,226	197,103	144,120	89	1,030	12	16

* *Source:* CRM database as of July 6, 2000.

** The amount of total costs includes lending completion costs, supervision, scheduled and unscheduled ESW, and dropped project costs.

*** The amount of lending completion costs includes lending completion costs and dropped project costs.

**** The amount of ESW preparation costs includes unscheduled and scheduled ESW preparation costs.

Annex Table 7. Bank's Senior Management, CY85-00

Year	*Vice President*	*Country Director*	*Resident Representative*
1985	S. Shahid Husain	Pieter P. Bottelier	-
1986	S. Shahid Husain	Pieter P. Bottelier	-
1987	S. Shahid Husain	Pieter P. Bottelier	-
1988	S. Shahid Husain	Pieter P. Bottelier	-
1989	S. Shahid Husain	Pieter P. Bottelier	-
1990	S. Shahid Husain	Pieter P. Bottelier	-
1991	S. Shahid Husain	Pieter P. Bottelier	-
1992	S. Shahid Husain	Pieter P. Bottelier	-
1993	S. Shahid Husain	Ping-Cheung-Loh	-
1994	Shahid Javed Burki	Ping-Cheung-Loh	-
1995	Shahid Javed Burki	Gobind T. Nankani	-
1996	Shahid Javed Burki	Gobind T. Nankani	-
1997	Shahid Javed Burki	Gobind T. Nankani	-
1998	Shahid Javed Burki	Myrna L. Alexander	Myrna L. Alexander
1999	Shahid Javed Burki	Myrna L. Alexander	Myrna L. Alexander
2000	David de Ferranti	Myrna L. Alexander	Myrna L. Alexander

Annex Table 8. International Development Goals

Goal	Indicator	1990	1993	1996	1996 Argentina	1996 Czech Rep.	1996 Hungary	1996 Uruguay	1996 LAC
1. Reduce the proportion of people living in extreme poverty by half between 1990 and 2015	Incidence of extreme poverty: people living on less than $2 a day (%)*	…	38.5	…	…	55.1	10.7	…	
2. Enroll all children in primary school by 2015	School enrollment, primary (% net)	87.8	87.5	89.4	99.9	99.9	97.3	93.9	94.4
3. Make progress towards gender equality and empowering women, by eliminating gender disparities in primary and secondary education by 2005	a. Ratio of girls to boys in primary and secondary school	…	0.98	0.97	…	…	…	…	…
	b. Ratio of literate females to literate males (15-24 year olds)	1.0	1.0	1.0	1.0	…	1.0	1.0	1.0
4. Reduce infant and child mortality rates by two-thirds between 1990 and 2015	Mortality rate, infant (per 1,000 live births)	16.0	13.1	11.1	20.9	6.0	10.9	17.5	..
5. Reduce maternal mortality ratios by three-quarters between 1990 and 2015	Maternal mortality ratio (per 100,000 live births)	..	..	23.0	..	..	..	..	..
6. Provide access for all who need reproductive health services by 2015	Contraceptive prevalence (% of women 15-49)	..	..	..	..	..	..	..	64.0
7. Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015	a. Biodiversity: protected land area (% of total land area)	..	..	18.9	1.7	15.8	6.8	0.3	7.3
	b. Energy efficiency: GDP per unit of energy use	4.5	5.6	5.7	6.7	3.3	3.8	9.5	..
	c. CO2 emissions, industrial (kg per PPP$ of GDP)	0.6	0.4	0.4	0.3	0.9	0.6	0.2	0.4

* Survey year: 1992.

Source: World Bank SIMA database.

Attachment I

GOBIERNO DE CHILE
MINISTERIO DE HACIENDA
Dirección de Presupuestos

July 23, 2001

Mr.
Ruben Landamy
Manager
Country Evaluation and Regional Relations
Operations Evaluation Department
The World Bank

Dear Mr. Landamy:

As a follow up to our conversation of May 29 regarding the draft OED report, "Chile – Country assistance Evaluation", I am sending you the following comments, some of which were already discussed in our meeting:

1. Although the Preface to the report indicates that it "reviews the Bank's assistance strategy from 1985 to 1999", much greater importance is given to the 1985-90 period in comparison to the whole decade of the nineties (1990-99).
2. Some programs that address the issue of equity in the 1990-99 period are either not mentioned at all or are insufficiently discussed. For example, the MECE pre-school and MECE primary education were followed by two MECE programs for secondary education (Secondary Education Quality Improvement, 1995; Higher Education Improvement, 1998). They are not mentioned. The report could expand its review of educational programs.
3. Housing sector loans are singled out as an example of "poor practice". Given that at the time, the issue was the large housing deficit, it was difficult that a major policy reform could have been a priority. Any delay in implementing the program, required by the policy reform, would have been unsustainable. If the Bank's interest was to promote a project that included such a reform and that did not occur, the cause may have been a lack of understanding on the part of the Bank of the authorities' priorities and not the latter's lack of foresight.
4. On page 14, "recent invasions of urban lands by people hurt by the recession may weaken the respect for property rights" is given as an example of the effects that economic recession may have on institutions. We are not sure to what events the report is referring to. We are aware of only one major land invasion in Santiago in recent years. According to press reports, it may have been stimulated by the owner to force the Government to purchase the land from him.
5. The agreement with the Bank to have an annual seminar and study requested by the country with no cost for the country should be explicit in the paragraph on Analytical services in page 9.

6. Chile and the Bank did have a program of short-term technical assistance, but it has not been renewed because the Bank modified its policy regarding the cost of such advice, requiring a full recovery of costs including non-salary costs, which led to such an increase in charges that the country is now indifferent between contracting this service from the Bank and directly from the market. This should be mentioned in paragraph 4.6 of page 15. In that sense, Chile believes that the Bank should revert to the criteria applied until 1998, that is that the country should only pay the cost of replacing the staff member assigned to the country.
7. Regarding the issue of gradual withdrawal in paragraph 4.7 of page 15, we suggest that it might be added that the Bank can continue to contribute to the improvement of public policies even though financing needs have declined. The Bank also benefits from a country that has effective public policies. It can provide an important demonstration effect.
8. The poverty rates of paragraph 1 in page iii are different from those of paragraph 1.1 of page 1. They also differ from the CASEN survey according to which poverty declined from 44.8% in 1987 to 22.2% in 1998. The fact that extreme poverty fell from 16.5% to 5.6% in the same period according to the CASEN survey should be mentioned as well.
9. The unemployment rates of paragraph 1.1 in page 1 differ from those of paragraph 1 of the Executive Summary.
10. The statement on the efficiency of the operations with Chile of paragraph 3.4 appears to be contradicted by the data contained in the Efficiency Table of page 26. This is particularly true if one looks at the average cost per US$1000 of net commitment, which for Chile are higher than for all of Latin America and the Caribbean (15 versus 8). This is probably due to the small size of Chilean projects and, from that point of view, the Chile's loan portfolio would not be as profitable for the Bank, but it could provide other benefits, such as the possibility of replicating them and the innovative character that the projects can have.
11. In relation to the development of domestic capital markets in paragraph 1.5, it is not the case that in 87-88 the pension funds were expanded. What did occur is that investment by pension funds in financial instruments was diversified and regulated.
12. The reduction in the import tariff to 9% mentioned in paragraph 1.7 of page 2 is part of a program of gradual reduction in the import tariff established by law and that will lead to a tariff rate of 6% in January 1, 2003. The tariff rate is currently 8%.

Sincerely yours,

DIRECCION DE PRESUPUESTOS
DIRECTOR
Ministerio de Hacienda

MARIO MARCEL
Director de Presupuestos

Attachment II

January 17, 2002 CODE2001-105

Report from CODE

Informal Subcommittee to the Committee on Development Effectiveness

Chile: Country Assistance Evaluation

1. The Informal Subcommittee (SC) of CODE met on December 17, 2001 to discuss the OED Country Assistance Evaluation (CAE) for Chile (CODE2001-0084), covering the period 1985-2000. OED rated the overall outcome of World Bank assistance to Chile during this period as highly satisfactory, noting that it had had an important and durable development impact and had supported substantial institutional development. OED recommended that the Bank remain engaged with Chile and that future assistance (1) help advance the social agenda, and (2) help the economy cope with negative external shocks including volatile access to international capital markets. Although Chile's need for Bank financing has declined, OED suggested that Bank involvement in Chile be maintained through policy advice and fee-based ESW.

2. Management welcomed the CAE and OED's recommendations, commenting that the current unsupportive international environment had led to a realization that Chile remained vulnerable to external shocks. Addressing this vulnerability would, therefore, be a key part of the Bank's dialogue with the country in the near term.

3. The SC broadly supported the findings of the evaluation and concurred with OED's recommendation that the Bank's financial assistance should continue in the foreseeable future. Commending Chile's macroeconomic performance since the crisis of the early eighties and the major structural reforms implemented at that time, members asked whether Chile's experience provided lessons on attaining sustainable growth that might be applicable to other countries in crisis. Major issues raised by the SC were as follows.

4. **Vulnerability of Chile's economy to external shocks**. SC members asked for clarification regarding OED's conclusion that Chile's economy was vulnerable to external shocks. They pointed out that a large external sector did not necessarily imply vulnerability. OED explained that the size of the external sector was less a factor than the combined effect of an economy still dependent on copper combined with the volatility of the international price for copper. One member said that a fully successful reform program and a country with the potential for graduation should imply that the economy was robust enough to withstand shocks and would not require World Bank financing, insurance or other assistance. He commented that Chile might still fall prey to the problems faced by Korea in 1997. OED noted that the financial sector reforms started in the mid-1980s and continued in the 1990's combined with sound fiscal management had vastly improved the resilience of the Chilean economy. Management noted that the Bank's assistance strategy for Chile was entirely demand driven as the country had de facto "self-graduated" in the mid-1990s. The Chileans had recognized that current international conditions posed risks to continued growth of their economy and had asked for Bank assistance to decrease external vulnerability as well as to continue to support its development agenda.

5. **Lessons**. One member noted that Chile's experience *per se* did not provide new lessons for development practitioners since implementing sound policies in an environment of reasonable institutional and governance quality was highly likely to be successful. In this context, a member wanted to know the extent to which governance quality constrained the generalizability of Chile's experience. Another member asked about the applicability to other countries of the measures taken by the Bank

(especially its involvement in debt work-outs) in helping Chile deal with the economic crisis of the early 1980s. Other members wanted to know what general lessons the Bank had learnt from its experience in Chile regarding the pace and sequencing of reform and the determinants of success in adjustment lending.

6. Management commented that one of the key features of the reform process of the 1980s was that Chile's fiscal adjustment had been very significant, in a short period of time, leading to high unemployment and the need for a public works program reaching 30 percent of the labor force. The main difference between Chile and some other countries currently in crisis was that Chile had run fiscal surpluses since the reform. OED noted that context matters critically for reform so that lessons of experience cannot always be easily translated across countries. However, where a combination of market-friendly and people-friendly policies are put in place, reform offered good prospects for success and sustainability.

7. The SC agreed with the CAE's recommendation that the effectiveness of Bank structural adjustment lending could be enhanced by granting successive SALs with few, but substantive, conditions rather than one extended loan with multiple conditions. Management concurred that lending with fewer conditions was the goal.

8. **MIC strategy**. The SC commented on Chile's sustained interest in Bank policy advice and the recent interest in borrowing despite being seen as a potential candidate for graduation. Members asked about the extent to which the CAE's recommendations were consistent with the Bank's strategy for middle income countries (MICs). They noted that the MIC report suggested that the Bank use a long-term policy framework or strategy in such countries and emphasize program lending rather than investment loans, both contrary to the experience with Chile. OED pointed out that there was a range in performance even among MICs, and that the value added of the Bank in this particular case hinged on the extent to which the Knowledge Bank could be useful through dissemination of good practice across countries. Management responded that it did not plan to have a strategy for Chile separate from the one being laid out in the coming CAS. It clarified that the MIC strategy did not prescribe program lending for all countries. A series of single tranche adjustment operations for Chile was possible if circumstances so warranted and in fact Chile had requested a SAL or series of SALs with the option of a deferred draw down.

9. **Government ownership**. The SC questioned OED's comment that in a country with sophisticated economic management the Bank should refrain from insisting upon reforming policies in the absence of strong ownership for reform. Members pointed out that ownership was a pre-condition to reform and necessary for the success of conditionality but that a perceived lack of ownership ought not to lead to excessive risk aversion on the part of staff in terms of advocacy of reform. They urged that the Bank continue to try to build constituencies for reform. OED clarified that the reference in the report had been to a particular case and circumstances. In its view, shared objectives and reciprocal obligations underlying a long-term relationship were vital for the success of conditionality. Management concurred that ownership of the reform program was critically important in all cases.

10. **Non-lending services.** Members supported OED's suggestion that the Bank continue to provide Chile with TA on a cost-sharing basis even if the country were not willing to pay the full cost of this support. They noted that such TA was valuable for the Bank as a source of learning and that this justified the Bank's bearing some of the cost of producing it. Other members were concerned that the Bank appeared to have priced itself out of the market for non-lending services to Chile and wondered why Bank costs should be so high. The SC noted the need for a clear policy on the pricing of ESW and AAA, along with a definition of what is core ESW that the Bank would fund out of its administrative budget, what is purely demand driven ESW and what lies in between in terms of mutual Bank/country learning.

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Management noted that Chile continues to request and use TA under the full-cost policy but core ESW, which facilitates knowledge generation within the Bank, and work that has strategic value to the Bank are funded out of the administrative budget. It commented that the issue of reimbursable ESW was different from reimbursable TA and that, following up on a note distributed earlier on Fixing Economic and Sector Work—Phase II, OPCS is preparing a technical briefing for Executive Directors on ESW reform, which will provide an additional opportunity to discuss the issue of pricing.

11. **Social sectors.** Members were concerned that despite considerable improvement, Chile still had significant poverty and inequality. One member wanted to know whether the reduction in poverty was due to trickle-down or whether it was the result of more interventionist policies. Another speaker noted that although the Bank had been a key supporter of the structural reforms of 1985-87, poverty and inequality had not been addressed by that reform program. He asked what lessons had been learnt in terms of addressing social sector concerns in the context of structural adjustment. A member felt that to some extent the very high inequality in Chile had swept away the gains from growth. Members asked for more information on what the Bank could do to help Chile advance on lowering poverty and inequality.

12. Management responded that about 75 percent of the decline in poverty in Chile was attributable to growth and the rest to direct social-policy measures. The decline in the Gini coefficient, taking into account social programs, was mainly the result of progress in the education and housing sectors and due to direct income transfers. In terms of adjustment lending, it noted that the Bank now made every effort to ensure that the social impact was minimized. In many cases management tried to build in social safety nets or other forms of protection for vulnerable groups and complement structural reforms with companion social sector programs.

13. **IFC role**. Members expressed concern that IFC was not active in Chile. IFC management responded that as an investment-grade country, Chile enjoyed access to international capital markets. Given the availability of domestic and international financing on competitive terms that existed, and in light of IFC's development mandate and limited resources, IFC followed and will follow the Bank in engaging selectively with Chile.

Matthias Meyer, Chairman
CODE Subcommittee

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