



OED OUTREACH

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Chile: Country Assistance Evaluation

- Over the fifteen-year period under review Chile's economy has been one of the fastest growing in the world, and its social indicators have improved markedly.
- The Bank played a key supportive role to the reforms, and its assistance has been highly satisfactory.
- The Bank should be ready to assist Chile in advancing the social agenda, as well as to help it deal with negative shocks that could threaten its achievements.

Over the period 1985–2000 Chile performed extremely well. GDP per capita grew at 4.9 percent per year. Between 1987 and 1998 poverty rates declined from 45 percent to 22 percent, and extreme poverty fell from 17 percent to 6 percent. Life expectancy, 75 years, exceeds Latin America's (70 years).

The Bank played a key supportive role, with money and advice, in helping Chile out of the mid-1980s crisis and during 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 infrastructure and agriculture loans, to reduce bottlenecks hindering export growth and economic growth. With stability and growth secured, the Bank emphasized social welfare and human resources development and lent for education and health.

OED has concluded that Bank assistance had an important development impact. The reforms and stabilization program carried out created the conditions to grow faster, to reduce poverty and gender differences, and to strengthen the private sector. Bank assistance supported substantial institutional development, and time has shown that the achievements are durable. The institutional change promoted private sector development

and better governance, financial accountability and financial management. The institutional change also brought better gender outcomes and better management of water resources.

Chile's impressive achievements place it steps ahead of many middle-income countries, but important issues remain to be addressed. Poverty and income inequality remain high, and the recent recession brought to the forefront of economic discussion Chile's vulnerability to external events due to its large external sector. The social conditions and the latent dangers for the economy show the challenges to be met and the areas where Bank assistance could be useful.

OED recommends that the Bank's assistance strategy play two primary roles:

- help advance the social agenda, and
- 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 government's desire to improve social policies suggests 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. The Bank could provide financing and insurance mechanisms that would help reduce the variability of expenditure and of income over time.

OED also believes that, although financing needs may decline, the Bank should continue to be involved through policy advice and economic and sector work. As Chile's borrowing from the Bank diminished, the Bank and the Government launched a fee-based program of short-term technical assistance. The program has encountered some difficulties because it became too expensive once the Bank proposed full cost recovery pricing. The Bank needs to consider ways to respond to Government requests for policy advice and economic and sector work. It should be ready to prepare short policy notes drawing on its global knowledge. Also, it should continue to provide for a fee specific technical assistance and specialized advice at the authorities' request in high

priority development areas where the Bank has unique knowledge capacities and no comparable source of advice exists. 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, such pricing would be justified because these studies would also allow the Bank to maintain its knowledge base and to learn from the Chilean experience.

Government and Management Response

An earlier version of this report was discussed with the Government of Chile. Also, the Director of Budget of the Ministry of Finance sent a letter with comments which is attached as an annex to the report. Government comments have been incorporated. The Government shares OED's main conclusion: that the Bank can play a useful role with financial support, technical assistance and policy advice. Management agrees with OED's analysis and recommendations.