

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

April 27, 2015
Report No.: 96176

Operation Name	Chile Development Policy Loan For The First Programmatic Social Inclusion For Shared Prosperity Operation
Region	Latin America And Caribbean
Country	Chile
Sector	Poverty GP
Operation ID	P154213
Lending Instrument	Development Policy Lending
Borrower(s)	Republic Of Chile
Implementing Agency	Ministry of Finance Ministerio de Hacienda Teatinos 120 Santiago Chile Tel: +56 2 2828 2000
Date PID Prepared	April 27, 2015
Estimated Date of Appraisal	June 22, 2015
Estimated Date of Board Approval	August 17, 2015
Concept Review Decision	Following the concept review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

Chile's strong economic performance supplemented with high social spending has contributed to significant poverty reduction and shared prosperity over the past two decades. Since 1990s, Chile has sustained high growth rates and increased social spending primarily on those at the bottom of the income distribution. Chile also continues to consolidate its position as one of LAC's strongest performers, with stable economic growth, low inflation, and decreasing unemployment.

Even though Chile performed exceptionally well in reducing poverty and increasing the size of the middle class, income inequality has seen only modest declines. The country's high level of inequality is one of the main concerns of the Government. Low intra-generational mobility and limited opportunities for vulnerable groups to participate in productive activities are seen as important constraints to reducing inequality. Parents' education and occupation are the circumstances that explain most of the inequality in access to quality education.

The Government of Chile has defined a comprehensive program of reforms on education, fiscal policy and social protection that aim to enhance equity and social inclusion. The 2014-2018 Government Program (PDG) "*Chile de Todos*" emphasizes the importance of reducing inequality and implementing reforms to support a more integrated society with equal

opportunities for all. To fulfill the objectives of equity and social inclusion, the Government is introducing wide ranging policy reforms, which include a broad educational reform to expand opportunities for poor, vulnerable and middle class youth in all levels of education, a determined fiscal reform to increase tax collection and improve progressiveness of the system, and social protection reforms to ensure that vulnerable populations do not fall back into poverty and to strengthen poverty measurement to better track the inclusiveness of growth.

This programmatic DPL series supports and recognizes specific reforms to promote equity and social inclusion in Chile. The first proposed single-tranche operation in the series supports an initial round of policy actions mostly related to the ongoing education reform and to a lesser extent to policies related to strengthening institutions for poverty measurement and targeting of social programs. The considerable focus on education is mainly due to the current timing and sequencing of reforms in Chile. In addition, most of the actions included in the first operation have close links with past and current World Bank knowledge services and technical assistance. The second operation in the series is expected to support follow-up actions that correspond to the implementation of reforms.

The proposed operation has been requested by the Chilean government and underscores the government's interest in consolidating and expanding World Bank Group collaboration to strengthen equity and eradicate extreme poverty. The supported program is consistent with the FY11-FY16 Chile Country Partnership Strategy (CPS) Report No. 57989-CL, which was discussed by the Board of Executive Directors on February 15, 2011, in particular with the pillar of job creation and improving equity. The proposed operation is also consistent with the Government's current development strategy, specifically with the education reform.

II. Proposed Objective(s)

In line with priorities set by the Government, this First Programmatic Social Inclusion for Shared Prosperity Development Policy Loan would support the implementation of reforms under three main pillars: Pillar 1. Promoting Equal Opportunities in Education for Vulnerable Socioeconomic Groups; Pillar 2. Improving the Conditions to Enhance the Quality and Relevance of Tertiary Education; and, Pillar 3. Strengthening Institutions for Poverty Measurement and Enhancing Targeting Mechanisms of Social Programs. The program development objective is to support the Chilean government's agenda to promote equity and social inclusion through specific actions that aim to improve the access, quality and relevance of education and to strengthen institutions for poverty measurement and targeting of social programs.

III. Preliminary Description

Despite Chile's substantial upward income mobility and poverty reduction, challenges remain in terms of persistently high inequality, low inter-generational mobility and limited opportunities for vulnerable groups to participate on productive activities. Chile's Gini Index is much higher than that of now developed economies when they were around the same GDP per capita as Chile. Persistently high levels of income inequality are a matter for concern, given that they limit the effects of economic growth on poverty reduction. Although, Chile

registers excellent coverage in primary and secondary, enrollment rates are considerably lower in tertiary education, particularly for young adults that belong to the lower socioeconomic groups. Also, Chile's share of unattached youth – those who are neither working nor in school (*ninis*) – remain a sizeable group of the population, contributing to the inter-generational persistence of inequality.

The program of reforms supported by the proposed DPL series addresses these challenges:

Pillar 1. Promoting Equal Opportunities in Education for Vulnerable Socioeconomic Groups

The Government of Chile aims to improve access and quality of education to improve social integration in the education system. As a first step, the GoC has passed a bill that will gradually regulate the admission process of public schools, eliminate shared funding and prohibit profit in educational institutions that receive state contributions. The Government of Chile has also created the Program for Effective Access to Higher Education (PACE) to support low income students transition from high school to college and thus provide them greater opportunities and possibilities for their future development. For tertiary education, the Government of Chile has expanded scholarships for students who attend tertiary education that belong to the seven lowest income deciles.

Pillar 2. Improving the Conditions to Enhance the Quality and Relevance of Tertiary Education

The Government of Chile aims to improve the conditions to enhance the quality and relevance of tertiary education. It has created an inter-ministerial arrangement, in coordination with the private sector, to strengthen the link between secondary and professional-technical tertiary education for improving its relevance for the labor market. Moreover, as part of a comprehensive reform for tertiary education, the Government of Chile has increased resources to state universities, particularly for infrastructure and innovation. By doing so it aims to improve the quality of public education and thus increase the availability of a skilled workforce.

Pillar 3. Strengthening Institutions for Poverty Measurement and Enhancing Targeting Mechanisms of Social Programs

The Government of Chile, in line with international best practices, has released and implemented a revised official methodology for measuring monetary poverty and has introduced a new multidimensional poverty index to enhance the monitoring of poverty and inequality and thus inform the design of social policy. The design and introduction of this new methodology and index is the result of an important effort of many academic and international organizations including the Foundation for Poverty Alleviation (*Fundación para la Superación de la Pobreza*), the Economic Commission for Latin America and the Caribbean (CEPAL), and the Oxford Poverty and Human Development Initiative (OPHI) among others. The Government also aims to improve targeting for social programs through the design of a new allocation model for benefits and social services; the Social Protection Card Sheet System (*Ficha de Protección Social*) will be replaced with the System for Support of Social Selection (*Sistema de Apoyo a la Selección Social*).

Equity-driven policies, such as the ones supported by this operation, are expected to enhance the country’s capacity to grow in a sustained and inclusive manner. It is fundamental to expand educational opportunities to increase productive participation, particularly of those in the bottom of the income distribution and other typically excluded groups, to unlock their inherent economic potential by means of higher productivity and thus spurring on growth. Similarly, by improving the monetary poverty measurement methodology, introducing a multidimensional poverty measure and improving the quality of information and the methods used for targeting social policies the Government of Chile will be in a much better position to identify potential beneficiaries and help them improve their productive opportunities through an adequate set programs tailored to their specific needs.

IV. Poverty and Social Impacts and Environment Aspects

Preliminary technical analysis has shown that the government program supported by this operation is likely to have a positive impact on equity and social inclusion. The Inclusion Law is expected to have a positive impact by improving social integration in Chilean schools and reducing household expenditures in these mandatory levels of schooling. Similarly, policies that support the Effective Access to Higher Education Program (PACE) and the expansion of scholarships in tertiary education are expected to contribute to reducing inequity in tertiary schooling by expanding opportunities for students that belong to the lowest income deciles through greater financing and incentives to complete tertiary education. Policies to improve the quality and relevance of public higher education through increasing public resources to public universities and strengthening the link between secondary and professional-technical education will likely enhance labor market returns and reduce wage inequity. The prior actions regarding the strengthening of institutions for poverty measurement are expected to help identify vulnerable populations and to feed back into the redesign and evaluation of social policies. Finally, through the new System for Support of Social Selection the Government aims to move away from a system that only targets the poor, to a more inclusive one that aims at broader eligibility, excluding only the highest income deciles.

None of the policies supported by the proposed DPL are expected to have adverse effects on the environment. The program does not support actions linked to the construction or rehabilitation of schools, or other civil works that would likely impact the environment. No effect is expected on forest and other natural resources.

V. Tentative financing

Source:	(\$m.)
Borrower	
International Bank for Reconstruction and Development	TBD
Borrower/Recipient	
IBRD	
Others (specify)	
Total	TBD

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