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CHILE

PROGRAM TO SUPPORT SOCIAL EQUITY AND FISCAL SUSTAINABILITY

(CH-L1149)

LOAN PROPOSAL

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ABBREVIATIONS

AIOS	International Association of Pension Fund Supervisors
CASEN	<i>Caracterización Socioeconómica Nacional</i> [National Socioeconomic Survey]
CENABAST	<i>Central de Abastecimiento del Sistema Nacional de Servicios de Salud</i> [National Health Services System Supply Center]
COVID-19	Coronavirus disease 2019
DCCP	<i>Dirección de Compras y Contratación Pública</i> [Public Procurement and Contracting Office]
DIPRES	<i>Dirección de Presupuestos</i> [Budget Office]
ECLAC	Economic Commission for Latin America and the Caribbean
EITC	Earned Income Tax Credit
FNE	<i>Fiscalía Nacional Económica</i> [Antitrust Commission]
GDP	Gross domestic product
ILO	International Labour Organization
IMF	International Monetary Fund
INE	National Statistics Institute
LIBOR	London Interbank Offered Rate
LIS	Labor intermediation system
MDSF	Ministry of Social Development and the Family
MTPS	Ministry of Labor and Social Security
OECD	Organisation for Economic Co-operation and Development
OMIL	Municipal employment information offices
PBS	Basic solidarity pension
PLAC network	Network for Pensions in Latin America and the Caribbean
PPP	Purchasing power parity
SIMS	Labor Markets and Social Security Information System
SIO	<i>Sistema de Información Observatorio</i> [Information System Observatory]
UTM	<i>Unidad tributaria mensual</i> [Monthly taxation unit]
WAPES	World Association of Public Employment Services
WHO	World Health Organization

PROJECT SUMMARY

CHILE PROGRAM TO SUPPORT SOCIAL EQUITY AND FISCAL SUSTAINABILITY (CH-L1149)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility^(a)	
Republic of Chile			Amortization period:	16 years
Executing agency:			Disbursement period:	2 years
The borrower, through the Ministry of Finance, via the Budget Office.			Grace period:	5.5 years ^(b)
			Interest rate:	LIBOR-based
Source	Amount (US\$)	%	Credit fee:	
IDB (Ordinary Capital)	300,000,000	100	^(c)	
			Inspection and supervision fee:	
			^(c)	
			Weighted average life:	
			10.75 years	
Total			Approval currency:	
			United States dollar	
Project at a Glance				
<p>Project objective/description: The general objective is to improve social equity with fiscal sustainability in Chile. The specific objectives are to: (a) raise the incomes of the most vulnerable; (b) improve the adequacy of the solidarity pension system under Law 20,255 and the contributory pension system under Decree-Law 3,500; (c) expand access to low-cost medications; and (d) make public spending more efficient and improve the quality of the budget-formulation process.</p> <p>This operation is the first of a programmatic policy-based loan series consisting of two contractually independent but technically linked loans.</p>				
<p>Special contractual conditions precedent to the first and only disbursement of the financing:</p> <p>The sole disbursement is conditional upon compliance with the policy reform conditions as established in the Policy Matrix (Annex II) and the other conditions established in the corresponding loan contract (paragraph 3.3).</p>				
Exceptions to Bank policies: None				
Strategic Alignment				
Challenges:^(d)		SI <input checked="" type="checkbox"/>	PI <input type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes:^(e)		GD <input checked="" type="checkbox"/>	CC <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

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

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic situation.** In 2018, Chile achieved an annual per capita income adjusted for purchasing power parity of US\$25,283, one of the highest in Latin America and the Caribbean,¹ thanks to a robust institutional, political, and macroeconomic framework. After four years of around 2% growth, in 2018 the country grew 4%, and was expected to close 2019 at 2.6% growth.² However, the most serious social conflict of the past few decades erupted in October 2019, leading to several months of citizen demonstrations and violence, looting, and fires.³ Consequently, by year-end 2019, growth had fallen to 1.1%, and growth forecasts for 2020 shrank from 2.9% to 1.2%. Moreover, the recent COVID-19 pandemic had an additional impact on the economy, bringing expected growth down to -2%.
- 1.2 **The social context.** The social unrest flared up due to public transportation and electricity rate hikes, which were later suspended. However, civil discontent in Chile actually dates further back, and is much more far-reaching; it is rooted in a strong perception of inequality, increasing dissatisfaction with the price and quality of essential public services, including health care, and the gap between income (wages/pensions) and cost of living for the vulnerable population, which represents a significant portion of the population. Vulnerability in Chile is defined with the social household registry, which uses data on households and information from administrative databases to classify each household in an income or socioeconomic vulnerability bracket. The social household registry is used to determine eligibility for social programs. Chile's development is ranked below the Organisation for Economic Co-operation and Development (OECD) average in all dimensions of the quality of life index.⁴
- 1.3 **Social agenda.** The Chilean Government Plan 2018-2022 includes measures to close structural social gaps. In 2018 and 2019, the Government of Chile brought bills to Congress to modernize labor law (telework, labor flexibility, training), improve pensions, launch the Women's Agenda (with projects such as universal daycare); and comprehensive reform of the health care system, with measures that aim to reduce out-of-pocket spending on medication. Limited progress was made on this legislative agenda, and in view of the October 2019 crisis, the government launched a [Social Agenda](#)⁵ to respond to society's principal demands. This agenda accelerated some projects and included measures on pensions, health care, minimum income, and a reconstruction plan.

¹ World Bank, 2020.

² Consensus Forecast, 2019.

³ [Ministry of the Interior, 2019.](#)

⁴ OECD, 2019.

⁵ Later supplemented with the [Employment Protection and Economic Recovery Plan.](#)

- 1.4 **The fiscal context.** In response to the social crisis, the Government of Chile committed to increasing public spending in 2020 by 10.5% in real terms.⁶ In March 2020, in the context of the COVID-19 pandemic, it also announced measures worth the equivalent of 5% of GDP in support of companies and households that have ceased to receive an income. This spending increase, combined with the slower economic growth, poses a sustainability challenge. This has led to a deterioration of the fiscal position, with an effective projected deficit of 8% of GDP for 2020 and a ratio of gross central government debt to GDP of 32.7%.⁷ Accordingly, the Government of Chile has already approved a tax reform that will collect 0.6% of current GDP, and has announced its intention to accept more public debt and partially liquidate its sovereign funds in the short term. Financing more public expenditure and ensuring fiscal sustainability will require improved spending efficiency and new sources of medium-term financing.
- 1.5 **Agenda to improve spending quality.** The measures designed to increase government revenue and the strategy to finance the deficit are significant—and well-conceived for allowing the country to respond to the social demands while fulfilling its objective of maintaining fiscal sustainability.⁸ However, this strategy must be supplemented with measures to improve: (i) allocation efficiency, by reducing losses on spending programs, which will make it possible to better target and provide coverage for the poorest beneficiaries, and reallocating budgetary funds from poorly performing or low-priority programs to ones that generate a better social and economic return; and (ii) technical efficiency in spending, by providing the same quality of public services at a lower unit cost, or improving quality without changing the cost.
- 1.6 **The problem.** The principal problem identified is Chile's high level of inequality, understood as the income gap and disparity of access to basic services for the vulnerable population. Although Chile has reduced its income inequality (the Gini index dropped from 57.2 in 1990 to 46.6 in 2017), it continues to have the second highest level of all the OECD countries (average coefficient of 33.1).⁹ The Chilean redistribution system does not efficiently correct income inequality, insofar as it has only brought it down by 3 points, versus an average of 14 points in the OECD countries outside continental Europe.¹⁰ The problems specific to Chile are the low wages for vulnerable workers, meager pensions, high out-of-pocket health care costs, and inefficient public spending and budget-formulation processes, which decrease the quality of spending and its capacity to build social equity.
- 1.7 **The Chilean labor market generates insufficient income for a significant portion of the population.** Chile ranks within the lowest third of the OECD in six of the nine labor market outcome categories. Of note is its poverty rate after taxes (14.2% versus the OECD average of 10%) (OECD, 2020). The traditional mechanisms for ensuring sufficient wages are weak; minimum wage in Chile is

⁶ DIPRES, 2020. This includes the additional spending on implementation of the Social Agenda (starting in the last quarter of 2019) and on the COVID-19 Emergency Plan.

⁷ DIPRES, 2020.

⁸ See Izquierdo et al. (2018) on how to spend better with fiscal sustainability.

⁹ World Bank, 2020.

¹⁰ Redistribution is measured as the difference between the Gini coefficient before and after taxes and transfers (Izquierdo et al. 2018).

- half the OECD average.¹¹ All told, 54% of vulnerable employed workers earn hourly wages below the legal minimum. Wage levels are also affected by structural factors like the poor quality of education and training (Alaimo et al., 2015) and the lack of information available to low-income individuals about vacancies in better paid jobs (Mazza, 2017). These factors can be corrected in the medium term. Chile has been working to strengthen its labor intermediation system (LIS) through improvements to its online portal (the national job exchange)¹² and its in-person municipal employment information offices (OMIL). However, these services are still not coordinated, which means OMIL users have minimal access to information about vacancies advertised on the national job exchange—placing the most vulnerable job seekers, who depend on in-person services, at a disadvantage.
- 1.8 In addition to these structural factors, since October 2019 many families have been left without an income source due to situational ones (demonstrations and the lack of public transportation limited job opportunities for independent informal workers and forced many businesses and companies to remain closed).¹³ This led to income shortages at a time when families typically have extraordinary expenses (end-of-year holidays). These issues will be exacerbated by the COVID-19 pandemic.
- 1.9 In the short term, consumer spending by vulnerable workers and their families must be shored up through income transfers. Public policy instruments for income transfers vary depending on the target population, and in particular, if they are intended for formal or informal workers. Implementing income transfers to vulnerable informal workers requires use of a targeting instrument based on household poverty or vulnerability (for example, the transfer policy could target the most vulnerable 60% according to the Chilean social household registry). This type of targeting would allow for income transfers regardless of the employment status of the adults in the household. Cash transfers, especially conditional ones, have been shown to effectively reduce poverty and inequality in the short term (Fiszbein and Schady, 2009; Bouillon and Tejerina, 2007). For income transfers to formal workers, the government must be able to verify their job status (as formal workers or as individuals laid off from formal jobs); in this case, the transfer goes directly to the worker and not to the household, and may or may not be associated with the household's level of vulnerability. Transfers to low-income workers conditional upon their formal employment, such as the Earned Income Tax Credit (EITC) in the United States, may, in addition to generating liquidity, provide incentives for low-income individuals to seek out formal employment (Agostini et al., 2013). The EITC positively impacted income and reduced poverty in the United States.¹⁴ In the medium term, public policy can improve access to higher paid job opportunities through effective LISs. The established LISs have a structured system for serving and properly managing job seekers. First, they establish a user profile with an instrument that identifies user needs and classifies the type of support, facilitating

¹¹ For 2018, minimum wage in Chile was US\$7,320 PPP (IDB-SIMS), compared to the OECD average of US\$14,517 (OECD-Stat). In Chile, approximately 800,000 formal workers earn minimum wage.

¹² Improvements in the user experience, work history tracking, integration with private job portals, etc.

¹³ [Protests](#).

¹⁴ In 1999 the poverty gap would have been 20% higher without the tax credit (Holt 2006). The employment rate for single mothers (the principal beneficiaries of these programs) rose 12% (between 1984 and 2003), driven by this type of program (Eissa and Hoynes, 2006).

the allocation of services and resources. There is also a flexible service-management model adapted to local conditions (IDB, 2017).

- 1.10 **Furthermore, in Chile, pensions are low.** Nearly 40 years after the pension system reform was established in [Decree-Law 3,500](#) as amended and in [Law 20,255](#) as amended, Chile faces challenges with regard to the system's current and future adequacy.¹⁵ Currently, pension amounts are below Chileans' expectations, and there is a marked gender gap. In relative terms, from 2007 to 2017, the average worker's pension was 44% of their final salary (56% for men and 31% for women).¹⁶ Likewise, 71% of women and 36% of men receive pensions below the poverty line (Superintendency of Pensions, 2019). If the system is not reformed, current and future pensions will continue to be insufficient for ensuring old-age income security. This is due to:
- a. Limited reach of the solidarity pension system. In 2008, Chile introduced a solidarity pillar to the pension system targeting the most vulnerable 60%. This pillar has played an important role in increasing pensions for the poorest populations and women.¹⁷ However, the solidarity pillar's capacity for increasing pension amounts has been limited, and as of November 2019, the basic solidarity pension (PBS) was below the Chilean poverty line. The PBS is 13.3% of the average salary in Chile, less than the OECD average of 20.4% (OECD, 2019).
 - b. Low level of savings in individual accounts. According to data from the Superintendency of Pensions, from 2007 to 2017 over 50% of pensioners had paid into the contributive pillar for fewer than 20 years. Women contributed for 13 years, and men, 18. This is due to women's lower level of participation in the workforce (57% vs. 79% of men) and their unpaid work (66% of these workers are women). The lack of compulsory savings was not offset by voluntary savings. At the end of 2019, fewer than 1% of enrolled individuals had an active voluntary savings account to supplement their pensions. This is partially due to the fact that enrollees receive limited information about how the pension system works. The advisory services provided by the pension fund administrators do little to remedy these issues. This makes it difficult for enrollees to make decisions to appropriately adapt their savings to their pension expectations. All told, 19% of men and 12% of women know how much of their taxable income is discounted monthly for pensions; 32.5% of men and 21.8% of women know their contribution rate; and 11% state that they are aware of the commissions charged by their pension fund administrator. Furthermore, people typically overestimate their pension contributions, stating that they have been paying in 38% longer than they actually have (Social Protection Survey, 2015; Presidential Pension System Advisory Committee, 2015).

¹⁵ Adequacy refers to the adequacy of the pension, which can be measured in terms of ensuring pensioners can enjoy a standard of living similar to the one they had when they were working, measured by the replacement rate, or in terms of a reference parameter such as the poverty rate. In this case, the term refers to the system's capacity to provide the necessary minimum pensions required to avoid poverty in old age.

¹⁶ Superintendency of Pensions, 2019.

¹⁷ As of November 2019, 74% of PBS beneficiaries were women.

- c. The failure to adapt the system to the economic and demographic context. The poor monitoring and lack of adjustment of the pension system translates into ever smaller pensions. The current pension system pursuant to Decree-Law 3,500 was set up and configured in 1981. Since then, life expectancy at the minimum legal age of retirement has gone up 4.7 years for men and 5.1 for women. Average real rates of return dropped from 12% in the 1980s to 5.1% in the 2010s (Superintendency of Pensions, 2018; AIOS, 2019) and are expected to drop even further (McKinsey, 2016; IMF, 2019, 2020). Despite these changes, the fundamental parameters of the pension system (contribution rates and retirement age) have remained unchanged, which means pensions are increasingly smaller. Although the Budget Office (DIPRES) does have a sophisticated forecasting model for the Decree-Law 3,500 pension system and the solidarity pension system, it does not use it to adjust medium-term parameters to guarantee adequate pension levels.
- 1.11 The noncontributory pillars play an important role in facilitating coverage increases and improved benefit adequacy. In many countries, the population's capacity for contributing to the system is insufficient, and there is a need for broadly financed solidarity pensions (ECLAC-ILO, 2015). Providing benefits that are not tied to contributions is the only way to ensure old-age income for generations that either did not participate in the formal labor market, or participated intermittently (Bosch et al., 2013; Oliveri, 2016). González and Guastavino (2019) calculate that increasing the value of the basic solidarity pension by 10% and the maximum welfare pension by 15% will reduce the poverty rate of individuals over 65 by 1.1 percentage points (from 4% to 2.9%). The low contribution rates in Chile (10% versus the OECD average of 18%) determine the pension amount in the individual account model. In Chile, each additional point added to the contribution rate over the course of the enrollee's life will increase the pension by 10% (Berstein et al., 2006). Enrollees need more information and advisory support if they are to increase their mandatory and voluntary contributions (Bosch et al., 2013; Lusardi and Mitchell, 2014). That said, higher contribution rates will raise pensions only in the long term, and therefore pension subsidies are needed in the short and medium terms. Without additional subsidies, replacement rates, even with high contribution densities, would be between 25% and 35% (Bosch et al., 2018). International experience suggests that continuous monitoring of the system facilitates adjustment, accountability, and citizen information (Cavallo and Serebrisky, 2016).
- 1.12 **High out-of-pocket health care costs ([optional link 2](#))**. In Chile, individuals' direct or "out-of-pocket" payments for the use of health services make up a high percentage of total health care spending, 35.1% compared to the OECD average of 20.6% (OECD, 2019). Health care spending is the spending category that has grown second most since 2012, and medication purchases account for most of this increase: each household allocates an average of Ch\$25,700 per month thereto, nearly Ch\$10,000 more than in 2012 (National Institute of Statistics, 2017). From the social equity perspective, out-of-pocket health care spending is regressive, affecting the most vulnerable population. Groups with lower educational achievement (correlated with lower income) have a higher prevalence of medication usage, as follows from their higher prevalence of illnesses.

- 1.13 The high level of private spending on medication in Chile is explained by both supply and demand factors. With regard to supply, the market is concentrated around retail distribution (pharmacies), with significant variance in the prices of medications and their branded and unbranded bioequivalents. In all, 60% of existing pharmacies belong to three pharmaceutical chains that account for 95% of the sales value of medications (Ministry of the Economy, 2013) and 80% of retail sales (Antitrust Commission (FNE), 2019). Price-setting policies are unclear, and there is tremendous price dispersion (Public Health Institute, 2014). Furthermore, there are large price differences between original medications and their respective generic bioequivalents: on average, the originals are priced two times the branded bioequivalent generics and eight times the unbranded ones (National Consumer Service, 2018). The market for generics is particularly important because these generic medications are more affordable than the originals and are becoming the first option for the most vulnerable households.
- 1.14 There are other supply restrictions as well: (i) the centralized purchasing mechanism of the National Health Services System Supply Center (CENABAST), which gets better prices by purchasing in bulk, is exclusively designed to supply public establishments and does not work with private pharmacies (which account for 90% of pharmaceutical establishments in the country); (ii) distribution of the pharmaceutical supply varies significantly by geographical area: 46% of pharmacies are found in the metropolitan region, 59 of the country's *comunas* do not have a single pharmacy, and 89 *comunas* depend exclusively on health-center or municipal pharmacies. Pharmaceutical warehouses and *comuna* pharmacies cannot purchase drugs through the brokerage mechanism; and (iii) the pharmaceutical essential drug list (minimum stock of medications that all pharmacies must have on hand) contains a limited number of medications with only 78 active ingredients.
- 1.15 With regard to demand, consumers tend to trust the prescription their doctors give them, and are unable to make sufficiently informed decisions regarding product price and quality. Health professionals typically prescribe medications using the product's trade name rather than its active ingredient (international nonproprietary name) (FNE, 2019). According to a consumer survey, 96% of persons purchase the medication prescribed by their doctors and many would not substitute it with a cheaper version, even if it were equally effective. This means that consumers mostly purchase branded generics. In the generics market, branded drugs account for 90% of all products consumed (FNE, 2019). Consequently, consumers end up paying much higher prices for medications, which directly affects their out-of-pocket costs.
- 1.16 The World Health Organization (WHO, 2017) stressed that price competition, via the sale of generic products, is a powerful instrument for reducing prices. This competition, together with educational measures to improve the population's knowledge and perceptions of generics, has lowered prices by 75% to 95% in Portugal, France, Germany, and Poland (WHO, 2012). In view of this evidence, the Government of Chile is implementing a national medication policy that includes supply-side measures: expanded availability of generics at all pharmacies and a stronger centralized procurement mechanism with broader coverage under which private and *comuna* pharmacies will also be able to obtain medications at a lower cost; the aim of this is to transfer as low a cost as possible to users by setting maximum sales prices. On the demand side, the policy advances consumer

education on the meaning of bioequivalence and how to choose which medications to purchase.

1.17 **Inefficient public spending and budget-formulation processes decoupled from spending reviews.** Chile reports that, in the 2015-2018 period, its public expenditure was 23.4% of GDP (IMF, 2018), which is below the OECD average as well as the average for similar-income countries. In 2018, social spending accounted for around 10.9% of GDP (OECD, 2019), similar to in 1990 and the second-lowest value of all the OECD countries. To increase social expenditure, Chile needs to find new sources of financing and, in the short term, increase spending efficiency, redirecting funds to new social spending. From 2016 to 2018, 650 programs were reviewed each year. These evaluated programs accounted for 44% of the government budget and 60% were found to be inadequate (DIPRES, 2020). At least four factors explain this:

- a. The need to continue to improve public spending transparency, control, and accountability. The country needs instruments to improve the external review of the efficiency and transparency of government spending, to facilitate citizen participation, and to coordinate Congress and the executive branch to improve the budget process and reallocate resources in line with national priorities. Due to difficulties in interagency coordination, Chile obtained only 11 points out of a possible 100 on the Open Budget Index public-participation dimension (2017), fewer than the other countries in the region.
- b. The weak institutionalization of the public spending review function limits the incorporation of the review results into the budget-formulation process (DIPRES, 2017). The programmatic structure of the budget in Chile does not align with the government programs, which makes it difficult to link the results of program evaluations to budgetary reallocations that would improve allocation efficiency and be consistent with the country's strategic priorities.¹⁸ The Government of Chile, through DIPRES, needs a team specifically dedicated to reviewing expenditure with an established work plan, to include pilot reviews, and a timeline for carrying it out. The lack of such a team reduces the potential for planning and executing spending reviews that would analyze technical and allocation inefficiencies and spending programs' impacts on social equity, at least at the functional expense level (wages, goods and services, etc.). By comparison, 24 of the 37 OECD countries regularly perform such reviews.¹⁹
- c. The lack of institutional coordination for evaluating spending programs makes it more difficult to improve and standardize monitoring and allocation efficiency among social programs (responsibility of the Social Review Department of the Ministry of Social Development and the Family (MDSF) and nonsocial ones (responsibility of DIPRES). This division of responsibilities hampers coordination throughout the review process (information-gathering, monitoring methodologies, and publication of results) and limits the value thereof to budget formulation, given the lack of consolidation and standardized criteria (DIPRES, 2020). Furthermore, the performance of public spending program

¹⁸ Von Gersdorff, 2018; DIPRES, 2017.

¹⁹ Performance Budgeting Survey (OECD, 2018).

impact assessments has been limited.²⁰ The financial reports required for draft laws do not include background information on the assumptions used to calculate their expected fiscal impacts. Furthermore, the budget timeline makes it more difficult to align the budget with the country's strategic priorities (Izquierdo et al., 2018).

- d. Inefficiencies in the public procurement system resulting from administrative restrictions on micropurchasing thresholds and a lack of regulatory instruments and digital platforms that would make it possible to implement systems for streamlining procurement processes and aggregating demand. The Government of Chile's public agencies increasingly use the framework-agreement modality to procure goods and services due to the operational and demand-aggregation facilities it offers, as compared to simple bidding. However, the Public Procurement and Contracting Office (DCCP) has detected inefficiencies in the associated administrative costs,²¹ and in the prices awarded compared to the market,²² due to restrictions on micropurchasing thresholds²³ and a lack of regulations that would streamline procurement and aggregate demand. The DCCP estimates that correcting these inefficiencies could lead to administrative savings of up to 10 million employee-hours and financial savings of up to 15%.²⁴ It also estimates that micropurchasing accounts for 80% of public procurement market transactions, but only 8% of award amounts. Accordingly, streamlining and simplifying the micropurchasing system would make it possible to focus human, operational, and financial resources on more important, higher-risk, and higher-value procurement processes that require more intensive, strategic relationships with specialized suppliers. Therefore, the framework-agreement portal must also be revamped, with development of a virtual store platform whose back-office would include A/B testing techniques.²⁵ Lastly, the DCCP systems could benefit from functionalities offered by emerging technologies, like artificial intelligence and machine learning.

- 1.18 Two kinds of actions are needed to improve spending efficiency. First, actions to improve the allocation efficiency of government spending, which involves both targeting spending programs (to ensure that the beneficiaries defined in the program objectives are in fact the ones who receive the aid) and reallocating budget funding from low-priority, poorly performing programs²⁶ to high-priority ones. This will require more fiscal transparency and citizen participation in

²⁰ Robinson (2014) and Shaw (2015) outline arguments in favor of strengthening the relationship between impact assessments and budget formulation.

²⁴ ChileCompra (2017).

²² Institutional Spending Evaluation (DCCP, 2015).

²³ The micropurchasing threshold is 10 UTM (approximately US\$630); the streamlined-purchasing (*compra ágil*) modality lifts the threshold to 30 UTM (approximately US\$1,900).

²⁴ DCCP calculations with ChileCompra data.

²⁵ Technique according to which two variants of the same element are developed and implemented to measure which is more effective.

²⁶ More than 66% of OECD countries have adopted spending reviews to analyze spending and identify options for reducing or redirecting it and/or improving the quality-price ratio. International experience shows that these reviews help countries meet their fiscal targets and improve efficiency (IMF, 2019). Van Nispen (2016) shows the impact of the institutionalization of spending reviews in Canada and Holland.

monitoring public finances and budgetary resource allocation.²⁷ Further, Congress's participation in the allocation of public expenditure and taxes may encourage spending efficiency and make the budgetary process more representative (Scartascini et al., 2009). Second, actions to improve technical efficiency.²⁸ This entails searching for alternatives to increase the value-for-money obtained from public funds. The digitization and simplification of high-volume processes and the reassessment of service-production costs based on best practices are alternatives that would make it possible to save resources so as to redirect them to priority programs.

- 1.19 **Bank experience in the sector and lessons learned.** The Bank has extensive experience with and knowledge of the social and fiscal situation in Chile and the region. Furthermore, it has been supporting the Government of Chile with technical cooperation operations to strengthen job-training and placement policies, back the development of pension system reforms and improvements, and modernize government procurement. This programmatic series draws on this experience and supports the priority policies of the Government of Chile's Social and Spending Quality Agenda ([optional link 1](#)). With regard to employment, the Bank's analytical work identifies the need to improve coordination among LIS stakeholders, who have influenced the IDB's work in Chile. The Program to Strengthen the Labor Intermediation System in Chile (loan 4098/OC-CH) provided support for approval of a national labor intermediation policy, to coordinate the employment guidance, training, and placement efforts made by various public-sector stakeholders. The Component 2 measures aimed at improving the system for serving job seekers further these reforms, fostering the coordination of the in-person (OMIL) and online (national job exchange) services. In pensions, the IDB has financed studies on the design of the pension reforms meant to improve the system's social equity, adequacy, and sustainability, as well as on measuring their fiscal impact. Of note are the positive effects of noncontributory pensions on reducing old-age poverty. This information, together with the dialogue and support through the [PLAC Network](#),²⁹ is reflected in the measure that increases solidarity pensions (Component 3). The PLAC Network promotes access to information and the use of actuarial models—knowledge incorporated into the Component 3 measures—that will make it possible to report on the details of the DIPRES actuarial model and facilitate an assessment of current and future pension coverage.
- 1.20 In health, through the [CRITERIA](#)³⁰ Network, the Bank has been supporting improvements to pharmaceutical policies, consolidated procurement, price-setting, and regulatory frameworks. This knowledge informed the dialogue for establishing the critical aspects of the bioequivalence strategy. The Bank also has extensive experience providing operational support to the countries in line with the health objectives of this program. The operation Support for Reform of the General Social Security Health Care System in Colombia (loan 2952/OC-CO) demonstrated the

²⁷ Olken (2010) and Beath et al. (2017) have shown that citizen participation in the resource-allocation process increases satisfaction with and the legitimacy of budget processes.

²⁸ Bandiera et al. (2009) show that catalog procurement can generate significant government savings. For example, in Italy, it would save an average of 28% of the unit cost.

²⁹ IDB initiative designed to support countries in the region to improve their pension agencies' technical and institutional capacities.

³⁰ IDB initiative designed to support the countries of the region with studies and exchanges of best practices on prioritization and efficient management of government spending on health care.

importance of supporting price-control measures with prescription monitoring to control total spending on medications. This approach has been incorporated into Component 4 hereof. The technical cooperation operations in the Dominican Republic (operation ATN/OC-14616-DR) and Colombia (operation ATN/OC-15119-CO) showed the importance of simultaneously implementing supply and demand measures, as well as of combining measures targeting medication prescribers, marketers, and consumers. These lessons were incorporated into the new CENABAST centralized procurement model, and on information for physicians and chemist/pharmacists, respectively.

- 1.21 With regard to the fiscal sphere, the IDB supported Mexico in reengineering its public expenditure, which led to savings of around 0.7% of GDP in 2016, through the Public Finance Strengthening Program II (loan 3676/OC-ME). In Ecuador, the IDB is supporting institutionalization of spending reviews (Program to Support Improved Fiscal Management and Productive Development, loan 4825/OC-EC). Component 5 of this program incorporates the lessons learned in Mexico on budget formulation in order to ensure that public spending reviews inform decisions on budget allocation, reflected in budget rescheduling, and Ecuador's best practices for institutionalizing spending reviews. Lastly, in the area of public procurement, in 2011, the Bank supported the DCCP with the technical-cooperation operation Business Platform for the Public Procurement Market in Chile (operation ATN/ME-12663-CH), the data from which are reflected on [Analiza.c](#) and make it possible to use data science, artificial intelligence, and machine learning to set prices and other parameters. Regionally, the Bank has experience with advanced technologies, which it has already incorporated in El Salvador (Fiscal Strengthening for Inclusive Growth II, loan 4807/OC-ES) with a condition supporting the digitization of public procurement processes that is also included in Component 5 of this program.
- 1.22 In defining the expected outcomes, this program incorporated lessons learned from several projects (loans 2952/OC-CO, 3382/OC-DR, and 4098/OC-CH) by analyzing the time it takes to translate the reforms into measurable outcomes and the need to select information sources for measuring targets in the time periods established for the project completion report.
- 1.23 **Summary of the reforms.** The measures seek to further the Chilean government's response to the October 2019 social demands and are compatible with the ongoing actions to address the COVID-19 pandemic. This programmatic series supports reforms in four areas: labor, pensions, health care, and public spending. The first operation focuses on the regulatory changes needed for the country to provide a short-term response geared toward improving social equity with fiscal sustainability. The second operation will focus on implementing and expanding these changes in order to achieve medium-term results. With regard to labor issues, the reforms seek to respond to the majority of workers' need for a higher income. The project proposes providing a single family-support payment targeting the most vulnerable population, as well as a guaranteed minimum income for low-wage formal workers.³¹ In pensions, the measures aim to improve the adequacy of old-age pensions by increasing the basic solidarity pension and maximum welfare pension over their November 2019 values. This will mostly

³¹ This measure is better than a minimum wage increase, which could negatively affect formal job creation, harming the most vulnerable (Agostini et al., 2013).

- benefit women. Other measures seek to enhance future adequacy and improve the operation of the contributory pillar. In health care, the reforms contribute to the adoption and launch of a new brokerage system for the centralized procurement of medications, which will benefit private pharmacies and nonprofit establishments by allowing them to purchase medications for less. This savings will be transferred to end consumers through the establishment of maximum sales prices. In addition to making it mandatory for pharmacies to include more generics in their basic stock, the measures also promote consumer education on bioequivalence. Lastly, the fiscal reforms support strengthening the institutional framework among the executive and legislative branches to improve fiscal transparency, the quality of the budget cycle, and accountability to citizens; DIPRES institutionalization of public spending reviews and the institutional coordination thereof; and improvements in ChileCompra's operational efficiency.
- 1.24 **Vertical logic.** The vertical logic of this programmatic series is based on achieving the conditions for improving social equity in Chile while promoting the sustainability of government expenditure. This will be achieved through implementation of the Social Agenda, which includes several measures that will generate permanent expenses for the State (especially for solidarity pensions), and the Spending Quality Agenda, which seeks to improve allocation of government expenditure to programs that are positively reviewed, as well as the targeting thereof, thus helping to improve the State's role in redistribution.
- 1.25 **Policy gaps.** The labor measures will increase vulnerable workers' incomes in the short term, but work must continue to enhance human capital and improve job-training and labor-intermediation policies if the income increases are to result from a better match between supply and demand. With regard to pensions, the measures will significantly raise solidarity pensions, but to ensure pension-system adequacy the country must continue to make progress on: (i) introducing explicit mechanisms for adjusting parameters in order to adapt the pension system to the economic and demographical context; (ii) strengthening the voluntary savings pillar; and (iii) improving financial education for citizens. The health care measures should make it possible to close the out-of-pocket gap for households in areas with less access to lower-cost bioequivalent medications. In the medium term, additional actions must be taken to enable the electronic sale of medications, so as to guarantee a larger supply and increase competition in medication sales, in a regulated way. The fiscal measures, designed to improve efficiency between public spending programs and public procurement operations, respond to policy gaps that are addressed by the actions under this programmatic series, but constitute medium- and long-term challenges. Sustained institution-strengthening and improved spending-review and budget-formulation methodologies will be necessary, as will the use of machine learning and artificial intelligence in digitized public procurement processes.
- 1.26 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and is aligned with the development challenge of social inclusion and equality, through the reduction of old-age poverty and access to health services (less expensive medications). The program is also aligned with the crosscutting areas of: (i) institutional capacity and the rule of law, through the strengthening of institutional capacity and techniques for managing public expenditure; and (ii) gender equality and diversity, by enhancing gender equity in the solidarity pension system, which primarily benefits women, who have

more gaps in social security payments that limit their access to contributory pensions. The indicative measures for the second operation include specific reforms to benefit women. The operation will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the reduction of poverty and inequality (indicator 3) for solidarity pension beneficiaries; institutions will benefit from enhanced management and digital-technology capacities (indicator 26), through more efficient execution of public procurement processes under ChileCompra.

- 1.27 The operation is also aligned with the IDB Group Country Strategy with Chile 2019-2022 (document GN-2946), specifically with the strategic objectives of “improve the health of the Chilean people,” and “increase pensions sustainably.” In addition, it is consistent with the Strategy on Social Policy for Equity and Productivity (document GN-2588-4), in that it provides support for improving the operation of labor markets and expanding social security coverage, and with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), by providing support for improving the quality of public expenditure. It is consistent with the Labor Sector Framework Document (document GN-2741-7), which highlights the need to improve social security coverage to reduce the risk of poverty in old age; the Health and Nutrition Sector Framework Document (document GN-2735-7), which pursues financial protection through efficient health spending; and the Fiscal Policy and Management Sector Framework Document (document GN-2831-8), which underscores the importance of institution-strengthening for improving the quality of public spending.

B. Objectives, components, and cost

- 1.28 **Program objective and components.** The general objective is to improve social equity with fiscal sustainability in Chile. The specific objectives are to: (a) raise the incomes of the most vulnerable; (b) improve the adequacy of the solidarity pension system under Law 20,255 and the contributive pension system under Decree-Law 3,500; (c) expand access to low-cost medications; and (d) make public spending more efficient and improve the quality of the budget-formulation process.
- 1.29 **Component 1. Macroeconomic stability.** This component seeks to promote macroeconomic stability, in line with the program’s objectives as set forth in the Policy Matrix and [Policy Letter](#).
- 1.30 **Component 2. Income support for vulnerable workers.** This component aims to raise vulnerable workers’ incomes: in the short term, through approval of cash transfers to social-subsidy beneficiaries and households among the 60% most vulnerable,³² as well as a subsidy to low-paid formal workers; and in the medium term, through consolidation of the LIS: OMIL use of the national job exchange will improve services for vulnerable workers, helping them access better paid jobs. This first operation will support the following measures: (a) approval of a single income-support transfer that targets the most vulnerable population; (b) approval of a subsidy to ensure a guaranteed minimum income for payroll workers governed by the Labor Code; and (c) improvement of the OMIL system for serving job

³² According to the social household registry. See paragraph 1.2.

- seekers, through creation of an OMIL management module in the national job exchange and approval of a national job exchange user manual.
- 1.31 The indicative policy actions for the second operation are: (a) characterization of the extraordinary payment beneficiary population; (b) evaluation of the outcome of the guaranteed minimum income on payroll worker income distribution; and (c) continuity in improving the OMIL system for serving job seekers.
- 1.32 **Component 3. Improvement of the outcomes of solidarity pension system under Law 20,255 and contributory pension system under Decree-Law 3,500.** This component aims to improve old-age pensions by increasing pension amounts in the solidarity pension system and through the evaluation and operation of the contributory pension system under Decree-Law 3,500. This first operation will support the following measures: (a) approval of an increase in the old-age basic solidarity pension and the maximum welfare pension over their November 2019 values; this will primarily benefit women, the principal beneficiaries of the basic solidarity pension; (b) preparation and disclosure of a technical document that explains the actuarial model used by DIPRES to calculate the contributory system pension amounts and the fiscal costs of the solidarity pension system; (c) equipping the Superintendency of Pensions to use the platform for official State communications (DocDigital), to improve information and advising for enrollees.
- 1.33 The indicative policy actions included for a second operation are: (a) performance of a study to analyze the impact of the increases in the basic solidarity pension and maximum welfare pension on the wellbeing of older adults; (b) DIPRES approval of the technical guidelines for developing an actuarial tool to create a mechanism for continuous monitoring of the solidarity and contributory pension systems under Decree-Law 3,500; (c) expansion of the Superintendency of Pensions improvements in information and services for enrollees; and (d) submission to Congress of a bill to improve the equity and adequacy of the contributory pillar.
- 1.34 **Component 4. Increased availability of low-cost medications.** This component is designed to help expand access to medications with better operating efficiency and lower out-of-pocket costs for users. Accordingly, the program will support measures that foster the centralized procurement of medications and facilitate access to bioequivalent generics to decrease out-of-pocket costs. This first operation will support the following measures: (i) approval of a regulatory framework authorizing CENABAST brokerage of medications for pharmaceutical warehouses and private pharmacies; (ii) appointment of the members of the CENABAST Advisory Council responsible for recommending procurement and final-price-setting procedures to pass the savings from aggregated purchasing onto users; (iii) initial implementation of the new medication-brokerage system with the first cohort of private pharmacies to sign agreements with CENABAST; (iv) implementation of a strategy to inform citizens about the new bioequivalence policy; and (v) modification of the list of essential bioequivalent pharmaceutical stocks that must be available at medication retailers.
- 1.35 The indicative policy actions for a second operation are: implementation of the first four measures started in the first operation, with an emphasis on monitoring and evaluation; and approval of the bioequivalence of medications certified by international health surveillance agencies, to increase the number of bioequivalent medications available.

- 1.36 **Component 5. Improved quality of public spending.** This component will support measures to improve the technical and allocation efficiency of public expenditure. To that end, the program will support development of a government policy to improve transparency, control, and accountability to citizens on public expenditure; implementation of public-expenditure monitoring and evaluation tools and systems; and improvement of the budget-formulation process. It will also promote public spending efficiency and savings in the procurement of goods and services by public agencies through ChileCompra.
- 1.37 This first operation will support the following measures: (a) strengthening of the institutional framework for improving the quality of public spending and accountability to citizens through the: (i) creation of a Public Spending Committee that will advise the Ministry of Finance on designing and implementing an agenda for modernizing the budget and the public expenditure system; and (ii) signing of a memorandum of understanding between the National Congress and the Ministry of Finance to establish an agenda for modernizing the budget system and improving the quality and efficiency of public spending, facilitating access to information, supporting a diagnostic assessment of the budget process in Chile, and strengthening the diverse institutions involved in the budget process; (b) institutionalization of public spending reviews, to include establishment of a Public Spending Review Unit within DIPRES; and execution of the first spending review pilot and publication of the results; (c) strengthening of the public spending review methodologies and systems and the institutional coordination thereof, to include formalization of a mechanism for coordination among the nonsocial programs evaluated by DIPRES and the social programs evaluated by the MDSF Social Evaluation Department; strengthening of the financial reports on draft laws; and creation of a competitive impact-assessment fund, in coordination with the MDSF; (d) rescheduling of the budget-formulation process, to facilitate integration of the results of the spending review and program monitoring into allocation of the annual budget items; (e) improved operational efficiency and generation of savings in the procurement of goods and services by public agencies, governed by Law 19,886 on the Bases for Administrative Supply and Service Agreements and its regulations, set forth in Finance Ministry Supreme Decree 250/2004, as amended (ChileCompra), to create and implement the streamlined-purchasing and coordinated-purchasing modalities; and development of a new virtual store platform for the framework-agreement modality; and (f) strengthening of price-setting processes in public procurement with the creation of the Business Intelligence and Studies Division at the DCCP.
- 1.38 The indicative policy actions for a second operation are: (a) continued institution-strengthening with implementation of the recommendations agreed upon with the Public Spending Committee, development of the congressional/executive branch coordinated review bodies, and incorporation of the agreements on improving the monitoring and evaluation of public spending in the development and deliberation of the Budget Act; (b) inclusion of spending reviews in the government budget cycle; (c) development and implementation of spending review methodologies; (d) implementation of reforms to the budget-formulation process; (e) expansion and strengthening of the micropurchasing platform; and (f) implementation of artificial-intelligence and machine-learning processes in price-setting for public procurement.

1.39 **Beneficiaries.** At the programmatic series level, the beneficiaries will be the residents of Chile. They will benefit from a more equitable society and more efficient public spending. Since this is a multisector program, there are various types of beneficiaries. The single payment will benefit 1.4 million people in vulnerable households; the guaranteed minimum income will benefit 600,000 low-wage workers; and the increase in solidarity pension amounts will benefit 1.5 million older adults. The indicative measures for the second operation for Components 2 and 3 and the Component 4 and 5 measures will benefit the vulnerable population, estimated at 11.6 million persons. Component 4 will benefit individuals who purchase medications, especially, vulnerable families. Component 5 will benefit vulnerable groups with improvements in the budget allocation of social programs.

C. Key results indicators

1.40 **Results Matrix.** This matrix identifies the expected outcomes and outputs from implementation of the program policy measures. The impact indicators are: (i) improved income ratio between the 25th and 75th family per capita income-distribution percentiles and increase in formal workers' earned income; (ii) maintenance of the structural balance of public finances. The outcome indicators measure: (i) improvement in the ratio of income for the 25% most vulnerable to the median income for men and women, respectively; and improvement in the ratio of income of formal workers in the 25th and 75th income distribution percentiles, for men and women, respectively; (ii) increase in the median overall replacement rate in the pension system for men and women, respectively, and decrease in the percentage of old-age pensioners with pension incomes below the official poverty line for men and women, respectively; (iii) increase in the savings percentage for private pharmacies using the procurement mechanism and maximum product prices brokered by CENABAST under Law 21,198; increase in the percentage of health centers purchasing the essential basket at lower prices through CENABAST; increase in the number of *comuna* pharmacies that purchase medications through CENABAST; increase in the amount spent by *comuna* pharmacies on CENABAST-brokered medications; increase in the savings percentage achieved through the purchase of drugs and supplies brokered by CENABAST; and (iv) increase in the percentage of the public budget monitored as part of the budget-formulation process; and increase in efficiency savings in the execution of public procurement processes under the streamlined-purchasing modality.³³

1.41 **Economic analysis.** Based on OVE's recommendations made in its 2011 Evaluability Review of Bank Projects³⁴ and on the results of the review of evaluation practices and standards for policy-based lending conducted by the Evaluation Cooperation Group (made up of the independent evaluation offices of the multilateral development banks),³⁵ set forth in paragraph 1.3 of document

³³ The actions of the Public Spending Review Unit and the rescheduling of budget formulation will help increase the percentage of the public budget that is monitored and improve the quality of the budget formulation process and allocation decisions.

³⁴ Document RE-397-1: "Currently, [the] Economic Analysis section is computed as the maximum between the [cost-benefit analysis] and the [cost-effectiveness analysis]. Yet neither a [cost-benefit analysis] nor a [cost-effectiveness analysis] is applicable to [policy-based loans]."

³⁵ Evaluation Cooperation Group, 2012.

GN-2489-5 (Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non Sovereign Guaranteed Operations), which indicates, among other aspects, that it is not necessary to include an analysis of efficiency in the use of financial resources,³⁶ it was decided that an economic analysis would not be performed for this type of loan, as reported to the Bank's Board of Executive Directors. Accordingly, this loan operation does not include an economic analysis, and thus none will be used for purposes of determining the program's Development Effectiveness Matrix evaluability score.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation was designed as a programmatic policy-based loan. It is the first of two contractually independent but technically linked single-disbursement operations. The structure of this operation adheres to the guidelines established in "Policy-based Loans: Guidelines for Preparation and Implementation" (document CS-3633-2). This programmatic modality is suitable because it: (i) promotes ongoing policy dialogue with Chilean government authorities; and (ii) facilitates monitoring and provides feedback on the reforms through the findings from program execution, with a view to consolidating the progress achieved in the second operation, planned for 2021.
- 2.2 **Dimensioning of the operation.** The financing amount for this first operation is US\$300,000,000, which will come from the regular Ordinary Capital resources. In line with paragraph 3.27(b) of "Policy-based Loans: Guidelines for Preparation and Implementation" (document CS-3633-2), the amount was determined based on the country's broad fiscal needs. The amount represents 2.3% of the borrowing authorization approved in the 2020 Public Sector Budget Act.

B. Environmental and social risks

- 2.3 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program does not require the ex ante classification of impacts. The operation supports the definition of policies, regulations, management instruments, and other institutional strengthening actions, and therefore no significant direct effects on the environment and natural resources are anticipated.

C. Fiduciary risks

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

³⁶ According to the Evaluation Cooperation Group, policy-based loans should be evaluated according to their relevance, effectiveness, and sustainability. Efficiency was not included as a criterion, since policy-based loan amounts are tied to the country's financing needs, independent of the project's benefits.

D. Other risks and key issues

- 2.5 The conditions for this first operation have already been fulfilled, so the risks are low. For the second operation, five medium risks have been identified, three of which are associated with the economic uncertainty set off by the October 2019 social crisis and exacerbated by the economic impact of the COVID-19 pandemic. Two macroeconomic and fiscal sustainability risks have been identified. The first involves the possibility that the fiscal situation could worsen due to current spending increasing due to the measures adopted to address the social conflict and the COVID-19 crisis, in a context of lower revenues, which could endanger fulfillment of the indicative measures for the second operation and its expected outcomes, if they cannot be fiscally sustained. To mitigate this risk. The Chilean government has produced a detailed estimate of the cost of the emergency measures and has defined a path to return to fiscal stability in its Public Finance Report, with the approval of the Fiscal Advisory Council. The second risk is that a prolonged slowdown of the Chilean economy due to the COVID-19 crisis could cause worker wages to fall, impacting fulfillment of the Component 2 outcomes. This risk cannot be managed within the project, but the Bank will support the Chilean government in identifying additional measures to sustain income. A public management and governance risk caused by slower economic growth in 2020 and, consequently, reduced tax revenue, together with an increased country risk, could lead to new demands that will divert resources initially earmarked for the Social Agenda, affecting program outcomes. This will be mitigated through support for the Spending Quality Agenda, to facilitate budgetary reallocation in line with national priorities. Two development risks, one related to the DIPRES's failure to incorporate, in the 2021/2022 budget allocation, the findings and recommendations from the spending reviews and joint monitoring with the MDSF, would affect fulfillment of the specific objective of improving the quality of spending and would endanger the indicative measures for the second operation. This will be mitigated through the involvement of officials from DIPRES as the technical counterpart in developing this operation. Another development risk, associated with whether the COVID-19 crisis continues into the second half of 2020, the institutional priorities of the Ministry of Health, CENABAST, and the Public Health Institute will necessarily center on handling the emergency, thus reducing the effort of oversight of compliance with the regulations on marketing bioequivalent medications. This will affect the indicative measures for the second operation and its associated outcomes. This risk cannot be managed within the project, but its evolution will be monitored through regular dialogue with the Government of Chile.
- 2.6 **Sustainability.** The Government of Chile has provided firm support for the actions promoted in this programmatic series, seeking legislative support ensure it has the funds to finance the Social Agenda measures, while underscoring its commitment to the country's fiscal stability. Some Social Agenda measures will result in permanent expenses for the State, to be financed with: (i) the savings produced from reviewing spending programs and reprioritizing resources included as measures in this programmatic series, avoiding additional public expenditure increases, supporting the stability of the budget and the maintenance of the structural deficit; and (ii) permanent income from the increase in State revenue, including from the recently approved tax modernization. In turn, the indicative measure for increasing contributory savings for pensions will allow for reducing the

amounts of the subsidies provided through the solidarity pension system. The continued improvement of the LIS will make it possible for workers to obtain higher wages. The measures for reducing medication prices are a priority for the national medication policy and will be monitored by CENABAST and the Public Health Institute.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Republic of Chile, which will execute the operation through the Ministry of Finance, via DIPRES. The borrower will be responsible for coordinating with other agencies involved in the program and reporting on fulfillment of the programmatic commitments.
- 3.2 **Coordination mechanisms.** The Ministry of Finance has thematic coordinators for all the areas included in this programmatic series and works very closely with DIPRES (which also has subject-matter experts). The Ministry of Finance and DIPRES will monitor fulfillment of the policy measures through their sector coordinators, whose functions will include ongoing dialogue with the government agencies involved in the program.
- 3.3 **Special contractual conditions precedent to the first and only disbursement of the financing: The sole disbursement is subject to fulfillment of the policy reform conditions as established in the Policy Matrix (Annex II) and the other conditions established in the corresponding loan contract.**

B. Summary of arrangements for monitoring results

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

IV. POLICY LETTER

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

Development Effectiveness Matrix			
Summary		CH-L1149	
I. Corporate and Country Priorities			
1. IDB Development Objectives			
Development Challenges & Cross-cutting Themes	<ul style="list-style-type: none"> -Social Inclusion and Equality -Gender Equality and Diversity -Institutional Capacity and the Rule of Law 		
Country Development Results Indicators	<ul style="list-style-type: none"> -Beneficiaries of targeted anti-poverty programs (#)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* 		
2. Country Development Objectives			
Country Strategy Results Matrix	GN-2946	"Improved quality of life of the population" in the areas of ageing and pensions, labor markets, and health.	
Country Program Results Matrix		The intervention is not included in the 2020 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability			Evaluable
3. Evidence-based Assessment & Solution			9.1
3.1 Program Diagnosis			3.0
3.2 Proposed Interventions or Solutions			3.6
3.3 Results Matrix Quality			2.5
4. Ex ante Economic Analysis			N/A
5. Monitoring and Evaluation			7.0
5.1 Monitoring Mechanisms			2.5
5.2 Evaluation Plan			4.5
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood			Medium
Identified risks have been rated for magnitude and likelihood			Yes
Mitigation measures have been identified for major risks			Yes
Mitigation measures have indicators for tracking their implementation			Yes
Environmental & social risk classification			B.13
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)			
Non-Fiduciary	Yes	Monitoring and Evaluation National System.	
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note:

This is a programmatic series, of US\$300 million in its first operation, aimed at improving social equity (maintaining fiscal sustainability) in Chile. The specific objectives are: (a) to improve the incomes of the most vulnerable people; (b) improve the adequacy of the pension system; (c) improve the availability of lower-cost drugs; and (d) improve the efficiency of public spending and the quality of the budget formulation process. The diagnosis is adequate and highlights the problems faced by the country. The main problem identified is high inequality, understood as the income gap and access to basic services of the vulnerable population. Although Chile has reduced its levels of income inequality (the Gini coefficient went from 57.2 in 1990 to 46.6 in 2017), it is still the second highest among OECD countries. The Chilean redistributive system fails to correct income inequality efficiently as it only reduces it by 3 points versus 14 points on average in OECD countries without Continental Europe. The specific problems are low wages for vulnerable workers, low pensions, high out-of-pocket spending on health, and low efficiency of public spending and budget formulation processes, which reduce the quality of spending and its ability to generate greater equity. The programmatic series supports reforms in four areas: work, pensions, health, and public spending. The first operation focuses on the regulatory changes necessary to provide a short-term response aimed at improving social equity with fiscal sustainability, and the second will focus on the implementation and deepening of these changes to achieve results in the medium term. The proposed outcome indicators are reasonable and well specified (although for some it is still necessary to define baselines; all targets are well identified even in those cases).

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

POLICY MATRIX

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

Components/ Policy Objectives	Policy Conditions Programmatic Operation I	Programmatic Operation I Fulfillment Status ¹	Policy Actions Programmatic Operation II
Component 1. Macroeconomic stability			
1. Macroeconomic stability.	1.1.1. The macroeconomic environment is conducive to achieving program objectives and consistent with the policy letter.	Fulfilled	1.2.1. The macroeconomic environment is conducive to achieving program objectives and consistent with the policy letter.
Component 2. Income support for vulnerable workers			
2. Raise vulnerable workers' incomes.	2.1.1. A single income-support transfer has been approved, as an extraordinary family-support payment targeting the most vulnerable population.	Fulfilled (Q4, 2019)	2.2.1. A report has been prepared characterizing the beneficiary population of the extraordinary payment.
	2.1.2. A subsidy has been approved to ensure a monthly guaranteed minimum income, charged to tax revenue, for payroll workers governed by the Labor Code, with a current employment contract for more than 30 hours per week.	Fulfilled (Q2, 2020)	2.2.2. An evaluation has been completed to analyze the outcome of the guaranteed minimum income on the distribution of income for payroll workers.
	2.1.3. The system for serving job seekers at the municipal labor information offices (OMIL) has improved, through: <ul style="list-style-type: none"> (i) Creation of a management module for the OMIL in the national job exchange, making it possible to for them to identify and classify national job exchange users; (ii) Labor Department approval of a user manual for OMIL and the National Training and Employment Service (SENCE) on the national job exchange. 	(i) Fulfilled (Q4, 2019) (ii) Fulfilled (Q2, 2020)	2.2.3. The OMIL system for serving job seekers has improved due to implementation of the improvements started in 2.1.3.

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

Components/ Policy Objectives	Policy Conditions Programmatic Operation I	Programmatic Operation I Fulfillment Status ¹	Policy Actions Programmatic Operation II
Component 3. Improvement of the outcomes of the solidarity pension system under Law 20,255 and the contributory pension system under Decree-Law 3,500			
3. Increase pension amounts in the solidarity pension system.	3.1.1. An increase has been approved in the old-age basic solidarity pension and the maximum welfare pension over their November 2019 values as follows, for persons aged: (a) over 80: 50%; (b) 75-79: 30%; and (c) under 75: 25%.	Fulfilled (Q4, 2019)	3.2.1. A study has been performed to analyze the impact of the increase in the old-age basic solidarity pension and the maximum welfare pension on the wellbeing of older adults.
4. Improve the evaluation and operation of the pension systems established in Decree-Law 3,500 as amended and in Law 20,255 as amended.	4.1.1. A technical document has been prepared and disclosed to explain the actuarial model used by DIPRES to calculate contributory system pension amounts and the fiscal costs of the solidarity pension system, including the assumptions, sources of information, and methodology.	Fulfilled (Q2, 2020)	4.2.1. DIPRES has approved the technical guidelines for developing an actuarial tool to analyze pension amounts and their evolution, fiscal costs, and impacts on social equity, with the objective of establishing a mechanism for continuously monitoring the solidarity pension and contributory pension systems (Decree-Law 3,500).
	4.1.2. The Superintendency of Pensions has been equipped to receive documents in the official State communications platform (DocDigital) for uploading, certifying, signing, numbering, and distributing official documents.	Fulfilled (Q1, 2020)	4.2.2. The Superintendency of Pensions has improved the information and services provided by pension fund administrators to enrollees, by: (i) issuing minimum service quality standards for the pension fund administrators; (ii) performing evaluations and drafting proposals for improvement in two areas in which the Superintendency of Pensions interacts with users: (1) improvements to the service model; and (2) improvements to the information provided on the website.
			4.2.3. Congress has been sent a bill to improve the equity and adequacy of the contributory pillar for women and the middle class, through an increase in the current pay-in rate.

Components/ Policy Objectives	Policy Conditions Programmatic Operation I	Programmatic Operation I Fulfillment Status ¹	Policy Actions Programmatic Operation II
Component 4. Expanded availability low-cost medications			
5. Help expand availability of low-cost medications.	5.1.1. There is a regulatory framework in place to help reduce out-of-pocket expenses by authorizing the National Health Services System Supply Center (CENABAST) to broker medication purchases for pharmaceutical warehouses and private pharmacies.	Fulfilled (Q1, 2020)	5.2.1. Measures have been implemented to help modernize the system by which CENABAST procures medications, with more flexible modalities for bidding, procurement, inventory maintenance, and final distribution of health care products.
	5.1.2. The members of the CENABAST Advisory Council have been appointed (the Director of the Center or his/her appointed representative, a representative of the director of the National Health Care Fund, a representative of the Public Health Fund, and three economists), responsible for recommending procurement and final-price-setting procedures for CENABAST.	Fulfilled (Q1, 2020)	5.2.2. The mechanism for oversight of pharmacies, pharmaceutical warehouses, and nonprofit health centers has been implemented. This mechanism will ensure compliance with the established maximum price limits and will sanction noncompliance.
	5.1.3. Implementation has begun of the new medication brokerage system with the first cohort of pharmacies to sign an agreement with CENABAST.	Fulfilled (Q1, 2020)	5.2.3. The new medication brokerage system has been implemented in a significant number of pharmacies with agreements.
	5.1.4. The Ministry of Health has implemented a strategy to provide citizens with information on the new bioequivalence policy, advancing the population's rights with regard to the availability of these medications.	Fulfilled (Q4, 2019)	5.2.4. A strategy has been implemented to broadly publicize the new measures on prescribing medications with medical personnel and on the proper dispensing of bioequivalents at sales points with chemists/pharmacists.
	5.1.5. The Ministry of Health has modified the list of essential pharmaceutical stocks, calling for medication retailers to have a minimum stock of bioequivalents on hand.	Fulfilled (Q4, 2019)	5.2.5. The bioequivalence of medications certified by health surveillance agencies in high-income countries, such as the United States Food and Drug Administration, has been approved, to increase their availability for the population.

Components/ Policy Objectives	Policy Conditions Programmatic Operation I	Programmatic Operation I Fulfillment Status ¹	Policy Actions Programmatic Operation II
Component 5. Improved quality of public spending			
<p>6. Support development of a State policy that will improve transparency, control, and accountability to citizens with regard to public expenditure.</p>	<p>6.1.1. The institutional framework for improving the quality of public spending and accountability to citizens has been strengthened through the:</p> <p>(i) creation of a ministerial advisory committee to improve the transparency, quality, and impact of public spending (Public Spending Committee), to advise the Ministry of Finance on designing and implementing an agenda for modernizing the budget and public spending system that will make it possible to improve transparency, efficiency, effectiveness, and impact in the use of public funds;</p> <p>(ii) signing of a memorandum of understanding between the National Congress and the Ministry of Finance to improve the transparency, quality, and citizen-centered approach of public spending, by:</p> <p>(a) taking part in defining an agenda to modernize the budget system and the quality and efficiency of public spending; (b) executing the necessary actions and plans to facilitate access to information; (c) supporting the performance of a diagnostic assessment of the budget process in Chile, including its fundamental stages: formulation, discussion, approval, execution, and evaluation; and (d) strengthening the various institutional agencies involved in the budget process through approval of administrative or legal measures.</p>	<p>(i) Fulfilled (Q1, 2020)</p> <p>(ii) Fulfilled (Q1, 2020)</p>	<p>6.2.1. The recommendations agreed upon with the Public Spending Committee have been implemented.</p> <p>6.2.2. The congressional/executive branch agencies for coordinated review of public spending have been developed.</p> <p>6.2.3. The agreements on improvements in the monitoring and evaluation of public spending have been incorporated into the formulation and deliberation of the Budget Act.</p>
<p>7. Support implementation of public spending monitoring and evaluation tools and systems.</p>	<p>7.1.1. Public spending reviews have been institutionalized. This will include:</p> <p>(i) establishment of a Public Spending Review Unit at DIPRES, ensuring it has enough staff and is developing a framework and timeline for its work that will include the order of the spending reviews;</p> <p>(ii) development of the first spending review pilot, focused on subsection 22 (consumer goods and services) of the Public Sector Budget Act and publication of results.</p>	<p>(i) Fulfilled (Q2, 2020)</p> <p>(ii) Fulfilled (Q2, 2020)</p>	<p>7.2.1. Public spending reviews have been incorporated into the government budget cycle.</p>

Components/ Policy Objectives	Policy Conditions Programmatic Operation I	Programmatic Operation I Fulfillment Status ¹	Policy Actions Programmatic Operation II
	<p>7.1.2. The systems and methodologies for evaluating public spending and the institutional coordination thereof have been strengthened, through:</p> <p>(i) formalization of the mechanism to coordinate the nonsocial programs evaluated by the DIPRES Public Administration Control Unit and the social programs evaluated by the Social Evaluation Department of the MDSF so as to improve and standardize monitoring and allocation efficiency processes among them;</p> <p>(ii) strengthening financial reports for legislative projects, incorporating background information on the assumptions used in calculating the expected impacts;</p> <p>(iii) creation of a competitive impact-assessment fund for 2020, in coordination with the MDSF, to strengthen the impact assessment of spending programs.</p>	<p>(i) Fulfilled (Q1, 2020)</p> <p>(ii) Fulfilled (Q2, 2020)</p> <p>(iii) Fulfilled (Q4, 2019)</p>	<p>7.2.2. Spending review methodologies have been developed and implemented, including:</p> <p>(i) Analysis of the effects on growth of the distribution between current and investment expenses;</p> <p>(ii) Analysis of efficiency in the administration of human resources, targeting of subsidies and benefits, and public investment; and</p> <p>(iii) Analysis of the social equity effects of spending allocations.</p>
<p>8. Improve the budget-formulation process.</p>	<p>8.1.1. The rescheduling of the budget-formulation process has been agreed upon, with the objective of facilitating integration of the spending review and program monitoring results in the allocation of the annual budget.</p>	<p>Fulfilled (Q2, 2020)</p>	<p>8.2.1. Reforms of the budget-formulation process have been implemented on the basis of the recommendations made by the various institutions to incorporate the results of spending reviews into this process.</p>
<p>9. Promote the efficiency of public spending and savings in the procurement of goods and services by public agencies through ChileCompra.</p>	<p>9.1.1. The operational efficiency of and generation of savings in the procurement of goods and services by public agencies governed by Law 19,886 on the Bases for Administrative Supply and Service Agreements and its regulations, set forth in Finance Ministry Supreme Decree 250/2004, as amended (ChileCompra) have improved. This includes:</p> <p>(i) Modification of the public procurement regulations to create and implement the streamlined-purchasing and coordinated-purchasing modalities;</p> <p>(ii) Development of a new virtual store platform for the framework-agreement modality, including functionalities that enable A/B testing.</p>	<p>(i) Fulfilled (Q4, 2019)</p> <p>(ii) Fulfilled (Q4, 2019)</p>	<p>9.2.1. The final version of the micropurchasing platform has been expanded and strengthened nationally.</p>

Components/ Policy Objectives	Policy Conditions Programmatic Operation I	Programmatic Operation I Fulfillment Status ¹	Policy Actions Programmatic Operation II
	9.1.2. The processes for setting prices in public procurement have been strengthened with the creation of the Business Intelligence and Studies Division at the DCCP.	Fulfilled (Q4, 2019)	9.2.2. Artificial-intelligence and machine-learning processes have been implemented for setting procurement prices.

RESULTS MATRIX

Program objective:	The general objective is to improve social equity with fiscal sustainability in Chile. The specific objectives are to: (a) raise the incomes of the most vulnerable; (b) improve the adequacy of the solidarity pension system under Law 20,255 and the contributory pension system under Decree-Law 3,500; (c) expand access to low-cost medications; and (d) make public spending more efficient and improve the quality of the budget-formulation process.
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IMPACTS

Indicators	Unit	Baseline		Targets		Source/ Means of verification	Observations
		Value	Year	Value	Year		
General objective: Improved social equity with fiscal sustainability in Chile.							
Ratio of household per capita income between the 25th and 75th percentiles.	Percentage	39%	2017	40%	2023	National Socioeconomic Survey (CASEN)	Note 1: CASEN is performed every two years. The results are published in the third quarter of the year after the data was collected. The results of the 2023 CASEN should be published in the third quarter of 2024.
Ratio of the earned income of formal workers in the 25th percentile vs. the 75th.	Percentage	39%	2019	40.5%	2023	Unemployment insurance	Note 2: baseline to be determined on 31 May.
Structural balance of public finances.	Percentage	-1.5%	2019	-1.5%	2023	Public Finances Report issued quarterly by the Budget Office (DIPRES)	The structural balance is expected to reach a deficit of 3.5% of GDP in 2020, which will shrink to deficits of 2.5% in 2021 and 2.0% in 2022. The measures for improving spending quality make it possible to increase the funds allocated to the Social Agenda without unsustainably increasing total government spending, to a large extent by reallocating funds from lower priority or worse-performing items to Social Agenda components.

OUTCOMES

Indicators	Unit	Baseline		Targets		Source/Mean of Verification	Observations
		Value	Year	Value	Year		
Specific objective I: Raise the incomes of the most vulnerable							
Ratio of the income of the most vulnerable 25% to the median income (men).	Percentage	83%	2017	84%	2023	CASEN	Note 1.
Ratio of the income of the most vulnerable 25% to the median income (women).	Percentage	67%	2017	69%	2023	CASEN	Note 1.
Ratio of the earned income of formal workers in the 25th percentile vs. the 75th (men).	Percentage	37%	2019	38%	2023	Unemployment insurance	Note 2.
Ratio of the earned income of formal workers in the 25th percentile vs. the 75th (women).	Percentage	42%	2019	44%	2023	Unemployment insurance	Note 2.
Specific objective II: Improve the adequacy of the solidarity pension system under Law 20,255 and the contributory pension system under Decree-Law 3,500							
Pension system overall median replacement rate (men).	Percentage	56%	2007-2017	61%	2023 (Dec2019- Dec2022)	Superintendency of Pensions Enrollee Database	Note 3: The replacement rate compares an individual's pension amount with the income they earned from work before retiring.
Pension system overall median replacement rate (women).	Percentage	31%	2007-2017	40%	2023 (Dec2019- Dec2022)	Superintendency of Pensions Enrollee Database	Note 3.
Percentage of old-age pensioners whose pension income is below the official poverty line (men).	Percentage	35.7%	2017	31%	2023	CASEN	Note 1.
Percentage of old-age pensioners whose pension income is below the official poverty line (women).	Percentage	71.4%	2017	66%	2023	CASEN	Note 1.
Specific objective III: Expand access to low-cost medications							
Savings by private pharmacies that joined the mechanism of CENABAST-brokered procurement and maximum product prices under Law 21,198.	Percentage	0%	2019	30%	2023	CENABAST Information System Observatory (SIO)	Savings obtained by private pharmacies participating in the CENABAST centralized procurement mechanism. Calculated by comparing a basket of CENABAST-brokered

Indicators	Unit	Baseline		Targets		Source/Mean of Verification	Observations
		Value	Year	Value	Year		
							health care products (at the CENABAST-determined maximum selling price to the public) with the same products at the weighted average retail price.
Essential basket medications purchased by health centers, procured at lower prices through CENABAST.	Percentage	75.4%	2019	80.0%	2023	SIO-CENABAST	This measures the percentage of medications considered essential to health centers' pharmaceutical stock that are procured through the CENABAST centralized procurement mechanism.
Number of <i>comuna</i> pharmacies that purchase medications through CENABAST.	Number	104	2019	135	2023	SIO-CENABAST	
Amount spent on medications purchased by <i>comuna</i> pharmacies through CENABAST.	Pesos	Ch\$8.591 billion	2019	Ch\$10.300 billion	2023	SIO-CENABAST	The amount spent is considered representative of the volume of products brokered for this subset of pharmacies. The target is an increase of 20% from 2019.
Savings obtained on CENABAST-brokered purchases of drugs and supplies.	Percentage	34%	2019	35.4%	2023	SIO-CENABAST	The savings is multifactorial and reflects effects from industry availability and prices. One indicator of success is that the baseline time series pattern, with an average value of 34%, has at a minimum been maintained since 2016.
Specific objective IV: Make public spending more efficient and improve the quality of the budget-formulation process							
Percentage of the government budget monitored as part of the budget-formulation process.	Percentage	44%	2018	47%	2023	DIPRES annual public budget monitoring report	Percentage of the public budget (over the total budget approved by law) monitored annually by DIPRES using its standard monitoring form.
Efficiency savings in public procurement under the streamlined- purchasing modality.	Average person-hours	12.03	2019	6.99	2023	ChileCompra report	Average person-hours used to execute a procurement process for less than 10 monthly tax units (UTM).

OUTPUTS

Annual execution programming and physical targets (Baseline expressed in stock, annual outputs expressed in flows)

Output	Indicator	Baseline		Targets	Source/Mean of verification	Responsible body
		Value	Year	2020		
Component 2. Income support for vulnerable workers						
A single income-support transfer, through an extraordinary family-support payment, targeting the most vulnerable population, approved.	Law	0	2019	1	Publication of the Law in the Official Gazette of the Republic of Chile.	Ministry of Finance
Monthly state-provided subsidy to ensure payroll workers governed by the Labor Code, with a current employment contract for more than thirty hours a week, obtain a guaranteed minimum income, approved.	Law	0	2019	1	Publication of the Law in the Official Gazette of the Republic of Chile.	Ministry of Social Development and the Family (MDSF)
The system for serving job seekers at the OMIL has improved, through:	Exempt Decree	0	2019	1	(i) Decree approving modification of the contract for the administration of the national job exchange.	Ministry of Labor and Social Security (MTPS)
(i) Labor Department approval of the creation of a management module for the OMIL in the national job exchange, making it possible for them to identify and classify national job exchange users;						
(ii) Labor Department approval of a user manual for the OMIL and the National Training and Employment Service on using the national job exchange.	Administrative order	0	2019	1	(ii) Labor Department Exempt Resolution 0307 of 20 April 2020 approving the national job exchange user manual.	MTPS
Component 3. Improvement of outcomes of the solidarity pension system under Law 20,255 and the contributory pension system under Decree-Law 3,500						
An increase in the old-age basic solidarity pension and the maximum welfare pension over their November 2019 values as follows, for persons aged: (a) over 80: 50%; (b) 75-79: 30%; and (c) under 75: 25%, approved.	Law	0	2019	1	Publication of the Law in the Official Gazette of the Republic of Chile.	MTPS
A technical document has been prepared and disclosed to explain the actuarial model used by DIPRES to calculate the contributory system pension amounts and the fiscal costs of the solidarity pension system, including the assumptions, sources of information, and methodology.	Administrative order	0	2019	1	DIPRES communication to the Chair of the Senate Labor and Social Welfare Commission, with the DIPRES technical document.	DIPRES
The Superintendency of Pensions is able to receive documents in the official State communications platform (DocDigital) for uploading, certifying, signing, numbering, and distributing official documents.	Administrative order	0	2019	1	Electronic report by the Digital Government Division of the Ministry General Secretariat of the Presidency on the DocDigital adoption as of March 2020.	Superintendency of Pensions

Output	Indicator	Baseline		Targets	Source/Mean of verification	Responsible body
		Value	Year	2020		
Component 4. Increased availability of low-cost medications						
A regulatory framework has been created to reduce out-of-pocket medication expenses by authorizing the brokerage of medications between the National Health Services System Supply Center (CENABAST) and pharmaceutical warehouses and private pharmacies.	Law	0	2019	1	Publication of the Law in the Official Gazette of the Republic of Chile.	Ministry of Health
The members of the CENABAST Advisory Council, the Director of the Center or his/her appointed representative, a representative of the director of the National Health Care Fund, a representative of the Public Health Institute, and three economists, responsible for recommending processes for procurement and for setting final prices for the medications supplied by CENABAST, have been appointed.	Exempt Resolution	0	2019	1	CENABAST Exempt Resolution appointing Advisory Council members.	CENABAST
Implementation has begun of the new medication brokerage regime with the first cohort of pharmacies to sign agreements with CENABAST.	Communication	0	2019	1	CENABAST communication to DIPRES reporting the number of private pharmacies that have signed agreements with CENABAST in connection with Law 21,198.	CENABAST
A strategy has been implemented to provide citizens with information on the new bioequivalence policy, advancing the population's rights with regard to the availability of these medications.	Website	0	2019	1	Evidence on the Ministry of Health website of the material reporting the measures to improve the availability of and access to bioequivalent medications.	Ministry of Health
List of the essential drugs that pharmacies must keep on hand, modified to include a minimum stock of bioequivalents.	Administrative order	0	2019	1	Ministry of Health administrative order determining the list of pharmaceuticals that must be on hand at the listed medication retailers.	Ministry of Health
Component 5. Improved quality of public spending						
The institutional framework for improving the quality of public spending and accountability to citizens has been strengthened through the: (i) creation of a ministerial advisory committee to improve the transparency, quality, and impact of public spending (Public Spending Committee), to advise the Ministry of Finance on designing and implementing an agenda for modernizing the budget system and public spending that will make it possible to improve transparency, efficiency, effectiveness, and impact in the use of public funds;	Decree	0	2019	1	(i) Ministry of Finance Decree 11/2020.	Ministry of Finance

Output	Indicator	Baseline		Targets	Source/Mean of verification	Responsible body
		Value	Year	2020		
(ii) signing of a memorandum of understanding by the National Congress and the Ministry of Finance to (a) participate in defining an agenda to modernize the budget system and the quality and efficiency of public spending; (b) execute the necessary actions and plans to facilitate access to information; (c) support the performance of a diagnostic assessment of the budget process in Chile, including the fundamental stages: formulation, discussion, approval, execution, and evaluation; and (d) strengthen the various institutional agencies involved in the budget process through approval of administrative or legal measures.	Memorandum of understanding	0	2019	1	(ii) Signed memorandum of understanding between the National Congress and the Ministry of Finance, on measures to improve the transparency, quality, and impact of public spending.	Ministry of Finance
Spending reviews have been institutionalized, through: (i) Establishment of a Public Spending Review Unit in the DIPRES, equipping it with sufficient staff and developing a framework and timeline for its work that includes the order of the spending reviews;	Resolution/ official letter	0	2019	1	DIPRES technical report on the: (a) operation of the Public Spending Review Department and (b) public-spending review proposal for 2020.	DIPRES
(ii) Development of the first spending review pilot, focused on subsection 22 (consumer goods and services) of the Public Sector Budget Act and publication of results.	Report	0	2019	1	DIPRES technical report presenting the results of a first detailed review of public-sector spending on consumer goods and services (Budget Act subsection 22).	DIPRES
The systems and methodologies for evaluating public spending and the institutional coordination thereof have been strengthened, through: (i) formalization of the mechanism to coordinate between the nonsocial problems evaluated by DIPRES and the social programs evaluated by the MDSF Social Evaluation Department Social Policies Division to improve and standardize the monitoring and allocation efficiency processes among both types of programs;	Circular	0	2019	1	(i) Joint Official Circular number 1 from DIPRES and the MDSF dated 8 January 2020, reporting on the joint budget initiatives monitoring process.	DIPRES
(ii) strengthening the financial reports on legislative projects, incorporating background information on the assumptions used in calculating the expected impacts;	Technical report	0	2019	1	(ii) DIPRES technical report on improvements to the financial reports on legislative projects, detailing the improvements to preparation.	DIPRES
(iii) creation of a competitive impact-assessment fund, in coordination with the MDSF, to enhance impact assessment of spending programs.	Budget comments	0	2019	1	(iii) DIPRES Exempt Resolution 017/2020 approving the administrative foundations for the Impact Assessment Fund 2020.	DIPRES
The rescheduling of the budget-formulation process has been agreed upon, with the objective of facilitating integration of the spending review and program monitoring results in the allocation of the annual budget.	Technical report	0	2019	1	Instructions for formulating the 2020 and 2021 budget.	DIPRES
	Timeline	0	2019	1	Copies of the public budget formulation timelines for 2020 and 2021.	DIPRES

Output	Indicator	Baseline		Targets	Source/Mean of verification	Responsible body
		Value	Year	2020		
Improved operational efficiency and generation of savings in the procurement of goods and services by public agencies governed by Law 19,886 on the Bases for Administrative Supply and Service Agreements and its regulations, set forth in Finance Ministry Supreme Decree 250/2004, as amended (ChileCompra), through: (i) Modification of the public procurement regulations to create and implement the streamlined-purchasing and coordinated-purchasing modalities; (ii) Development of a new virtual store platform for the framework-agreement modality, including functionalities to enable A/B testing.	Decree	0	2019	1	(i) Publication of the Ministry of Finance Supreme Decree 821/2020 in the Official Gazette.	ChileCompra
	Technical report	0	2019	1	(ii) DCCP technical report to be submitted to the IDB with the letter from the Budget Director.	ChileCompra
The processes for setting prices for public procurements have been strengthened with the creation of the Business Intelligence and Studies Division at the DCCP.	Organic statute	0	2019	1	Modification through DCCP Exempt Resolution 547-B of 26 September 2019 approving the new DCCP internal statute.	ChileCompra