

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**CHILE**

**PROGRAM TO IMPROVE THE QUALITY  
OF EXPENDITURE IN PUBLIC PROCUREMENT**

**(CH-L1178)**

**LOAN PROPOSAL**

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## ABBREVIATIONS

APDEX	Application Performance Index
CAIGG	Consejo de Auditoría Interna General de Gobierno (General Government Internal Audit Board)
CGR	Contraloría General de la República (Office of the Comptroller General of the Republic)
ChileCompra	Dirección de Compras y Contratación Pública (Public Procurement and Contracting Office)
DC	Direct contracting
DIPRES	Dirección de Presupuesto (Budget Division)
GDP	Gross domestic product
IDB	Inter-American Development Bank
MDB	Multilateral development banks
MOP	Ministry of Public Works
MINVU	Ministry of Housing and Urban Development
MSMEs	Micro, small, and medium-sized enterprises
QCBS	Quality- and cost-based selection
SCCP	Sistema de Compras y Contrataciones del Sector Público (Public Sector Procurement and Contracting System)
SIGFE	Sistema de Información de la Gestión Financiera del Estado (State Financial Management Information System)

**EXECUTIVE SUMMARY**  
**CHILE**  
**PROGRAM TO IMPROVE THE QUALITY OF EXPENDITURE IN PUBLIC PROCUREMENT**  
**(CH-L1178)**

Financial Terms and Conditions				
<b>Borrower:</b>			<b>Flexible Financing Facility<sup>(a)</sup></b>	
Republic of Chile			<b>Amortization period:</b>	25 years
<b>Executing agency:</b>			<b>Disbursement period:</b>	4 years
Borrower, through the Public Procurement and Contracting Office (ChileCompra)			<b>Grace period:</b>	5.5 years <sup>(b)</sup>
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Interest rate:</b>	SOFR-based
<b>IDB (Ordinary Capital)</b>	20,000,000	100	<b>Credit fee:</b>	<sup>(c)</sup>
			<b>Inspection and supervision fee:</b>	<sup>(c)</sup>
			<b>Weighted average life:</b>	15.25 years
<b>Total:</b>	20,000,000	100	<b>Approval currency:</b>	United States dollars
Program at a Glance				
<b>Program objective/description:</b> The general development objective of the program is to improve the efficiency and transparency of government procurement spending. The specific development objective is to improve the efficiency and transparency of the Public Sector Procurement and Contracting System (SCCP).				
<b>Special contractual conditions precedent to the first disbursement of the loan:</b> As special contractual conditions precedent to the first disbursement, the borrower, acting through the executing agency, will present evidence of: (i) approval and entry into force of the <a href="#">program Operating Regulations</a> , under the terms and conditions agreed upon with the Bank; (ii) the establishment of a program execution unit in ChileCompra; and (iii) the appointment or hiring, as appropriate, in the program execution unit of, at a minimum, a technical coordinator and, on a full-time basis, a financial management specialist, a procurement specialist, a planning and monitoring specialist, and an information technology advisor (paragraph 3.4).				
<b>Exceptions to Bank policies:</b> None.				
Strategic Alignment				
<b>Challenges:<sup>(d)</sup></b>	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>	
<b>Crosscutting themes:<sup>(e)</sup></b>	GE <input checked="" type="checkbox"/> and DI <input checked="" type="checkbox"/>	CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>	

<sup>(a)</sup> Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule as well as currency, interest rate, commodity, and catastrophe protection conversions. When considering such requests, the Bank will take operational and risk management considerations into account.

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

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

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

<sup>(e)</sup> GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problems addressed, and rationale

- 1.1 **Fiscal context.** After growing by 11.7% in 2021, Chile's gross domestic product (GDP) grew by 2.4% in 2022. Faced with countercyclical fiscal challenges resulting from the COVID-19 pandemic, the Chilean government led a fiscal consolidation effort that in real terms resulted in a 23% containment of public spending, enabling it, after almost a decade, to attain a primary surplus (1.1% of GDP) and a cyclically adjusted surplus (0.2% of GDP) in 2022.<sup>1</sup> The combination of fiscal and monetary policies has led to a significant decline in inflation, which fell from 14.1% in August 2022 to 5.3% in August 2023. Estimates for growth in 2023, however, are close to zero, despite a positive quarterly trend. As a result, in 2023, actual government revenues are expected to be down by 11.1% in real terms year on year, while public spending is expected to increase as a result of emergency spending, debt service, and other factors. It is estimated, therefore, that the country will end 2023 with a primary deficit of 2.3% (2.6% cyclically adjusted) before a return to growth in 2024, which is expected to see a surplus of 2.5% of GDP.<sup>2</sup>
- 1.2 The 2024 proposed budget<sup>3</sup> includes a 3.5% increase in spending as the government continues to address social spending priorities. The additional budget appropriations will be allocated to pensions, citizen security, social protection, and health, in addition to the consolidation of public investment. This increased spending in a low-growth scenario will be financed through improvements in tax compliance (reduction of tax evasion and avoidance), income tax reforms, and improvements in the technical efficiency of spending.<sup>4</sup>
- 1.3 One key initiative to improve the technical efficiency of public spending in the 2024 proposed budget is an average 22% budget cut for initiatives rated as poor performers in the government program evaluation process,<sup>5</sup> with no resources allocated to programs without a positive ex ante assessment. In addition, the Pacto Fiscal (Fiscal Pact) accords priority to strengthening the government procurement system as a State reform to improve quality and efficiency in spending.
- 1.4 **Weaknesses and opportunities in public procurement and contracting spending.** Strengthening the Public Sector Procurement and Contracting System (SCCP) offers great potential for savings that can be reallocated to social spending priorities.<sup>6</sup> For Chile, the report "Better Spending for Better Lives" (IDB, 2018) estimated that in 2016 inefficiency in spending on public procurement and contracting may have accounted for around 0.6% of GDP.

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<sup>1</sup> Budget Division (DIPRES), 2023.

<sup>2</sup> *Informe Trimestral Finanzas Públicas*, DIPRES, September 2023.

<sup>3</sup> *Folleto de Prioridades Presupuestarias, Proyecto de Presupuestos 2024*, DIPRES, 2023.

<sup>4</sup> *Dividendos de eficiencia*, as detailed in the [Pacto Fiscal para el Desarrollo](#), Ministry of Finance, 2023.

<sup>5</sup> The Bank supported initial efforts in this area through the operations Program to Support Social Equity and Fiscal Sustainability I and II: [5059/OC-CH](#) approved in 2020 for US\$300 million, closed; and [5302/OC-CH](#) approved in 2021 for US\$500 million, closed.

<sup>6</sup> Budget Division of the Government of Chile, [SCCP](#).

- a. **General information about the process and the system.** These inefficiencies are reflected, in the first place, in a lack of competition in contracting processes, which translates into high average bid prices. The savings obtained in competitive procurement processes in 2022 in terms of bid prices was 6.4% compared with the previous year. Second, the number of bids received is also limited. The Public Procurement and Contracting Office (ChileCompra) reports that the number of tenders with fewer than three bids increased from 39% in 2020 to 43% in 2022. The low number of bids reduces the competitive potential of the SCCP and makes it harder to obtain lower procurement prices. Third, the transparency of the system is limited. The Mercado Público (public market) transaction platform offers limited coverage and information on procurement processes. The system and its Mercado Público platform have not been mandatory for the entire public sector. Several major institutions, such as the Ministry of Public Works and the Ministry of Housing and Urban Development, use the platform on a voluntary basis. As a result, the percentage of procuring agencies transacting with respect to those required by the Procurement Law is 74%. Neither do the Mercado Público system or platform offer full coverage of the public procurement spending cycle and processes.
- b. **SCCP organizational matters.** These weaknesses stem from an outdated regulatory framework that limits ChileCompra's operational capabilities. Law 21.634, amending Law 19.886 on Terms and Conditions of Administrative Contracts for the Provision of Supplies and Services (hereinafter, the "new Law"),<sup>7</sup> passed by the National Congress of Chile and recently promulgated by the President of the Republic, aims to address the key causes of the weaknesses of the SCCP, including: (i) the need to improve of the system's probity and transparency standards and expand its coverage to include entities that previously did not use the system; (ii) low efficiency and effectiveness in the use of public resources; (iii) low participation in public procurement of micro, small, and medium-sized enterprises (MSMEs) including local and women-led suppliers; and (iv) limited promotion of innovation and sustainability (including use of the circular economy). Upon full entry into force,<sup>8</sup> the new Law and its regulations will, among its most important reforms, modify procurement procedures, expand coverage to new agencies, encompass the entire procurement cycle from planning to evaluation, and grant new powers to ChileCompra.

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<sup>7</sup> Law 21.634 "modernizing Law 19.886 and other laws, to improve the quality of public spending, raise standards of probity and transparency, and introduce circular economy principles in government procurement." The new Law was enacted on 28 November 2023 and published in the Official Gazette of 11 December 2023. The First Transitory Article of the new Law establishes the provisions on its entry into force of the Law, stating: (i) its provisions will enter into force one year after its publication (December 2024); (ii) exceptionally, the provisions on Contracts for Innovation, Competitive Innovation Dialogue and Electronic Reverse Auctions, and on the circular economy in the procurement of goods and services by State agencies will enter into force after 18 months (June 2025); and (iii) the rules on probity and transparency shall enter into force at the time of publication of the law (December 2023), except for agencies governed by the Articles 3 and 11, for which they shall enter into force in accordance with subparagraph (i) above.

<sup>8</sup> The new Law has a deferred effective date, as stated in the preceding footnote.

- c. **Other organizational matters.** Transactions on the ChileCompra Mercado Público platform amounted to US\$15 billion in 2022. That amount involved 1.8 million processes and the participation of 96,000 suppliers.<sup>9</sup> The percentage of procurement carried out through competitive processes is 78% (DIPRES, 2023), which is adequate by regional standards. By expanding the system's coverage to include new entities, the new Law is expected to generate a 20% increase in suppliers and a 35% increase in procuring entities. In addition, the number of transactions is expected to grow by 20% and to triple within 10 years. This will increase the already significant challenges of delivering efficient customer service. Only 65% of calls are handled within the first 20 seconds established as a quality standard, and more than 7% of calls handled are abandoned.<sup>10</sup>
- d. **Processes.** All business processes will be impacted by the regulatory modifications; in addition, the implementation of five new processes in ChileCompra will be required (including the issuance of binding instructions, public policy proposals, or promotion of the participation of smaller companies). Ninety-seven percent of suppliers participating in Mercado Público are smaller companies that account for 37% of transaction amounts. Twenty-five percent of the companies registered in Mercado Público are women-led; of those, 65% participate in Mercado Público.<sup>11</sup> The new Law will increase the number of State procuring entities from 850 to 1,150, while the increase in the fast procurement threshold from 30 to 100 monthly tax units (from US\$2,100 to US\$7,000 approximately) will increase the number of small and medium-sized companies transacting in the system by simplifying the associated bidding procedures.
- e. **ChileCompra.** ChileCompra has lacked the institutional authority to issue guidelines or propose policies as the SCCP managing authority, which the new Law modifies. The lack of authority translates into limitations in the implementation of procurement policies, along with operational inefficiencies. A study by the Fiscalía Nacional Económica (National Economic Complaints Office) (2020) reveals that 58% of direct contracting transactions by complainant public agencies do not meet the standard to justify that form of procurement and 8% of bids cannot be analyzed, not even manually, since the necessary background information is missing from the database. Likewise, close to 20% of bids have documentary inconsistencies; i.e., discrepancies between the information reported in the database and the attached documents. The implementation of the new Law could also require an increase in ChileCompra's transitional staffing of approximately 49 new technicians, including 31 permanent positions.
- f. **Monitoring of public procurement.** ChileCompra has an observatory, the functions of which include monitoring public procurement processes, reporting possible irregularities, managing reserved complaints, and active management

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<sup>9</sup> ChileCompra, 2023.

<sup>10</sup> Data provided by ChileCompra on the basis of its own estimates.

<sup>11</sup> 24,500 companies had obtained the woman-owned business certification by the end of 2022 (ChileCompra, 2023).



with public agencies (offering recommendations to promote probity and transparency in public procurement). The Observatory has to contend with significant challenges in carrying out its mandate, and its process monitoring only covers 1% of the total value of contracting through ChileCompra. More significantly, only 21% of high-risk public tenders were reviewed in depth by the Observatory's analysts, which limits the detection of irregularities, given the added lack of automated warning systems. Most processes are still manual, the information obtained from the platform is located in files, not structured formats, and there are no artificial intelligence tools. Due to the limitations in reviewing unstructured information, only 14.9 findings were generated for every 100 tenders reviewed, and only 46% were adequately corrected by the procuring agencies (DIPRES, 2023). Some 67% of claims for late payment were resolved by the agencies themselves (DIPRES, 2023). As a result of the Observatory's intervention and the corrections made, more than US\$8 million in expenditure failed to be executed in 2022 (the tender was declared void or revoked). The new Law will put substantially increased demands on the Observatory's work. It is estimated that the new Law will increase the Observatory's work by 160%, due to both the inclusion of new entities in the SCCP and the assignment of new responsibilities, which will add to the monitoring of processes and management of complaints, currently the main focus of the Observatory's efforts.

- g. **Technology aspects of the system.**<sup>12</sup> The technology platform has 11 million lines of code in 23 systems and more than 50% obsolescence in its components, which impairs efficiency and pushes up maintenance and software update costs. None of the procuring entities process all administrative acts of the procurement process electronically. Support weaknesses are reflected in a development error rate of 10%. The Mercado Público system has more than 250 million files, occupying 150 terabytes of storage at a high cost to the State. As a result, system response times are high, with an Application Performance Index (APDEX) indicator level of 0.8,<sup>13</sup> which is low by industry standards. When the new law goes into effect, it will generate a 22% increase in concurrent users, from 6,000 to 7,300 on average. Implementing the regulatory changes will require a 30% increase in ChileCompra's storage and processing capacity if the same standards for receiving and storing information are maintained. The central and crosscutting systems are poorly modularized (they have a monolithic architecture), which imposes a strong dependency between functions and makes the system, which does not have standardized common technological components, hard to maintain. The supporting infrastructure is obsolete, with high-emission servers that have limited processing capacity. Documentation is weak or nonexistent at the technological level, and there is no conceptual data model, no model

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<sup>12</sup> According to the [eGP 2.0 \(2022\) maturity model](#), Mercado Público is a transactional platform that has been operating since 2003. According to the model, the platform's main weaknesses included [IT security limitations](#), a lack of use of the contract management module by users, a lack of interoperability and integration with other public administration platforms, and interaction with new technologies.

<sup>13</sup> APDEX is an industry-standard indicator that measures the performance of computer software applications. It is a metric of user satisfaction with the system.

management tools, and no organizational data management function. The implementation of the new Law will also require the execution of 24 technology projects (developments).

- h. **Cybersecurity.** Mercado Público has structural weaknesses where cybersecurity is concerned. These include, for example, obsolescence of the technology stock and of the system's data architecture, absence of programming code review tools, and a lack of cybersecurity professionals in the ChileCompra team. Those weaknesses were laid bare in a recent ransomware attack on the platform's technology infrastructure provider that resulted in a complete denial of service for nearly three weeks on Mercado Público, ChileCompra, and Datos Abiertos platforms, including associated databases. Between 12 and 19 September 2023, when a contingency site for Mercado Público was made available to users, 5,260 bidding processes had been suspended, which were reactivated by that date and 95% of them had been regularized by 12 October thanks to the contingency plan implemented (ChileCompra, 2023). This event underlined the need to structurally reinforce the SCCP against future cyber threats and incidents, for which a diagnostic assessment is being carried out; an action plan is in place that will enable ChileCompra to take the necessary protective measures consistent with international practices (paragraph 1.18c).
- i. **Innovation procurement.** The current system does not promote innovation procurement. Despite recent efforts in this area, including the creation of a coordination roundtable led by the Ministry of Economy that devised a policy and implementation plan for this type of procurement, there are still important regulatory gaps to be filled. The new Law creates an innovation committee (made up of several public agencies) for the development of technical regulations. Recently, a market inquiry form for innovation procurement has been developed on the Mercado Público platform. In addition, the first pilot initiatives are being carried out with support from the IDB<sup>14</sup> and will be evaluated to provide feedback for the policy design process. Government officials are not familiar with this type of the procurement, and it still lacks technical definition in key aspects of its implementation, such as market analysis of existing solutions, calls for competitive dialogue, and contract selection, negotiation, and design aspects.
- j. **Circular economy and carbon footprint of public procurement.** Additionally, State entities make inefficient use of stored goods whose centralized management via a platform would enable savings in public procurement if the circular economy concept were implemented. The current SCCP has neither regulatory nor technological mechanisms to facilitate and promote the disposal and transfer of movable assets between government agencies. Additionally, the SCCP does not measure the carbon footprint of its transactions and lacks a key measuring tool to identify options for reducing it and thus facilitating a key contribution to compliance with the Paris Agreement.

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<sup>14</sup> At Las Higueras Hospital, solutions are being sought to speed up the patient transfer circuit from the emergency room to hospitalization services, and the Navy is exploring a predictive model for the maintenance of its ships.

- 1.5 **Country strategy in the sector.** The modernization of the SCCP falls more broadly within the framework of the State Modernization Agenda 2022-2026 advanced by the Ministry of Finance.<sup>15</sup>
- a. **State Modernization Agenda.** The Agenda provides a roadmap to leverage transformation and build new relations between the State and the public, leading to added public value for citizens and trust in institutions. Among other things, the Agenda includes structural initiatives for improving the efficiency of public spending, productivity, transparency, and public integrity, as well as the digital transformation of the State. In institutional terms, the State modernization ecosystem is made up of the Digital Government Division of the Ministry and the General Secretariat of the Presidency, which are responsible for coordinating, advising, and supporting autonomous State bodies in the strategic use of digital technologies, data, and public information to improve their management and the delivery of public services; DIPRES, which manages the evaluation system for information and communication technology projects; ChileCompra, which enables technology procurement and contracting through its Mercado Público platform; the Secretariat for Modernization, which leads the State Modernization Agenda and supports specific digitalization projects; and the Government Laboratory, which promotes innovations to transform the public sector, under the Ministry of Finance. In addition, the Ministry of the Interior and Public Security coordinates the State National Cybersecurity Policy through the Interministerial Cybersecurity Committee and the government's Computer Security Incident Response Team, which monitors, detects, and responds to cyber incidents in the State Connectivity Network. Finally, the Undersecretariat for Regional Development of the Ministry of the Interior and Public Security provides financial support for the digital transformation and modernization of local and regional governments.
  - b. **Improving the quality of spending.** Achieving efficiency dividends in State reform in order thereby to improve the quality of public spending has been a sustained strategy of the Government of Chile since 2019. This included modifications to the budget formulation process (adjusted zero-based budget) and improvements to the methodologies and systems for evaluating public spending programs, which continue to enable the reallocation of funds from underperforming programs to high-priority initiatives for the government each fiscal year. In addition to the aforementioned gains in allocative efficiency (IDB, 2018), important efforts are also under way to improve the technical efficiency of spending, including the implementation of centralized payment management systems and the implementation of digital innovation reforms in ChileCompra supported by operations [5059/OC-CH](#) and [5302/OC-CH](#).<sup>16</sup>
- 1.6 **The Bank's experience in the sector, the country, and the region.** The IDB has provided support to Chile through various financial instruments and specialized technical assistance in the areas of quality of public spending and procurement,

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<sup>15</sup> [State Modernization Agenda \(2022-2026\)](#).

<sup>16</sup> See footnote 5.

digital government, and transparency and integrity.<sup>17</sup> Early digital developments for the implementation of the new Law were supported through the operations “Assisting Public Expenditure Quality and Efficiency” ([ATN/OC-18383-CH](#) operational support, approved in 2020 for US\$100,000, under implementation) and “Promoting the Participation of Women in Public Procurement” ([ATN/OC-15858-RG](#), client support, approved in 2016 for US\$250,000, closed). The loan operation “Program to Support Chile’s Digital Government Agenda” ([5758/OC-CH](#), approved in 2023 for US\$100 million, under implementation) and the technical cooperation operation “Support for Chile’s Open and Digital Government Agenda” ([ATN/OC-20352-CH](#), approved in 2023 for US\$100,000, under implementation) are at the forefront of the Bank’s support for the implementation of the State Digital Transformation Law (Law 21.180). In addition, the “Improvement Program on Governance and Citizen Services” ([3298/OC-CH](#) approved in 2014 for US\$96 million, closed) included ChileCompra as one of the 10 projects financed under this program led by the Ministry of Finance, and through which the framework agreements were optimized by implementing technology tools and change management. In addition, through the “Program to Support Social Equity and Fiscal Sustainability I and II” ([5059/OC-CH](#) and [5302/OC-CH](#))<sup>18</sup> the Bank assisted regulatory efforts to develop the Public Procurement Law, the implementation of new contracting modalities (fast and coordinated procurement), and the harnessing of artificial intelligence and machine learning for public price benchmarking. Finally, the operation is complemented by efforts to strengthen Chile’s public integrity and transparency systems through the program series “Chile’s Integrity and Transparency Agenda Support Program” (I and II) ([3617/OC-CH](#), approved in 2015 for US\$130 million, closed) and [3748/OC-CH](#), approved in 2016 for US\$100 million, closed); and “Support for Strengthening Chile’s Integrity and Transparency Systems” (I and II) ([5298/OC-CH](#), approved in 2021 for US\$50 million, closed, and [5798/OC-CH](#), approved in 2023 and in execution), and the technical cooperation operation “Support for Chile’s Public Integrity, Transparency and Open Government Agenda II” ([ATN/OC-19435-CH](#), approved in 2022 for US\$150,000, under implementation).

- 1.7 **Rationale and vertical logic of the intervention.** Component 1 focuses on regulatory and organizational strengthening of the SCCP. The main purposes of this component are to support users in the adoption and dissemination of the new Law, to encourage the participation of women-led companies and smaller companies, and to promote sustainability in public procurement. The outputs have a direct impact on the APDEX indicator, which measures the responsiveness of ChileCompra’s technology system, thus ensuring the effectiveness of the initiatives. They also contribute to indicators that track increases in the number of entities with the woman-owned business certification and smaller companies participating in public procurement. In addition, strengthening the Observatory to improve the efficiency and effectiveness of procurement processes contributes to key efficiency indicators, such as “Percentage of findings corrected in a timely manner by agencies in public tenders” and “Operating cost-value transacted ratio.” These indicators reflect the efficiency of ChileCompra’s management processes

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<sup>17</sup> [Optional link 6.](#)

<sup>18</sup> See footnote 5.

in public competitions and ensure the achievement of the objectives set. Component 2 focuses on strengthening and evolving the public procurement technology system. The key outputs of this component, such as the common technology components, the expansion of the information technology infrastructure and the migration of the platform to modular systems, make a significant contribution to the improvement of the APDEX indicator and the operating-cost-to-value ratio. These improvements are achieved through the application of new technologies and the use of process analytics. The activities of the two components, by achieving the specific objective and the outcome indicators, work together to achieve the program's general objective. The latter seeks to improve the efficiency and transparency of public procurement expenditure, generating savings in competitive processes and promoting greater transparency through the reporting of information in the system. For more details, see [optional link 2](#).

- 1.8 The program execution mechanism balances the implementation requirements of the new law (paragraph 1.4b), which includes provisions to be completed at 12 months and at 24 months after approval, with the timelines required for efficient implementation of a large number of technology developments. The execution plan is based on lessons learned during the recent initiative to develop new functionalities for Mercado Público, carried out in 2023 with Bank support (paragraph 1.6).
- 1.9 **Bank's value-added.** The proposed reform program crystallizes the Bank's technical support for strengthening the SCCP, which dates back to 2008, when under the technical cooperation operations [ATN/ME-12663-CH](#) (approved in 2011 for US\$211,895, closed) and [ATN/ME-11074-RG](#) (client support, approved in 2008 for US\$5 million, closed) supported the first efforts to facilitate MSME access to public procurement and sustainable procurement. Between 2011 and 2012, with the technical cooperation operations [ATN/OC-12014-RG](#) (research and dissemination, approved in 2009 for US\$650,000, closed) and [ATN/KR-14664-RG](#) (research and dissemination, approved in 2014 for US\$630,000, closed), the Bank supported the development efforts of the Public Procurement Observatory, a body that now leads the monitoring and oversight of the system as a whole. The emphasis on support for system strengthening between 2014 and 2019 centered on the government's efforts to support gender equity, with key contributions such as the development of the woman-owned business certification and its expansion through the technical cooperation operations [ATN/KR-14664-RG](#) and [ATN/OC-18751-RG](#) (research and dissemination, approved in 2021 for US\$200,000, in implementation). More recently, the sustained support in these crosscutting challenges has been complemented with digital transformation initiatives for ChileCompra platforms, supporting key technological developments, the implementation of methodologies and contracting modalities, and regulatory advances, as in the case of operations [5059/OC-CH](#) and [5302/OC-CH](#).<sup>19</sup> As a result of this sustained support, the Bank has been chosen as a trusted partner of the government to tackle the SCCP's greatest institutional challenge in recent decades. This is a strategic partnership for the Bank, given the recognition of the

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<sup>19</sup> See footnote 5.

Chilean e-procurement system, which is considered a benchmark in the region and worldwide.

- 1.10 **Lessons learned.** The design of the operation draws on the following lessons learned based on the experience and value added of the Bank (paragraphs 1.6 and 1.9): (i) allocating adequate resources to change management and the importance of: strengthening the capacities of system users (paragraphs 1.18a and 1.18c); (ii) adopting an iterative approach that allows flexibility in response to changing requirements, technological advances, and lessons learned from earlier phases (paragraph 1.19); (iii) involving all relevant stakeholders, including government departments, suppliers, and end users, from the early stages of the program onwards (paragraph 3.2); (iv) prioritizing user experience and usability when designing the system (paragraph 1.1a); (v) strengthening data governance (paragraph 1.19); and (vi) institutionalizing reforms by designing and implementing projects required by law, thus ensuring the sustainability of the procurement system (paragraph 1.18).
- 1.11 **Strategic alignment.** The program is aligned with the second Update to the Institutional Strategy (document AB-3190-2) of the IDB through the development challenge of “productivity and innovation,” by means of digital transformation of management processes. It is also aligned with the crosscutting themes of: (i) institutional capacity and rule of law in that it supports the implementation of reforms for public financial management and strengthening transparency in the use of public resources by increasing the number of entities required to use the SCCP and the availability of more information; (ii) climate change, given the implementation of a circular public procurement platform and the development of a proposal for a carbon footprint calculator in public procurement; based on the elements considered above, according to the [joint MDB methodology for tracking climate finance](#), 1.36% of the operation’s proceeds target climate finance ([optional link 3](#)); (iii) gender equity, through the development and implementation of a user adoption strategy that encourages, among other things, the incorporation of clauses in bidding conditions to encourage greater participation by women; and (iv) diversity, through the adoption of universal accessibility standards to allow access for persons with disabilities. The program will contribute to the IDB Group Corporate Results Framework 2020-2023 (document GN-2727-12) through the indicators: (i) countries with strengthened gender equality and diversity policy frameworks; (ii) targeted beneficiaries of public services that have been adapted for diverse groups; (iii) countries with strengthened tax and expenditure policy and management; (iv) agencies with strengthened digital technology and managerial capacity; and (v) agencies with strengthened transparency and integrity practices.
- 1.12 In addition, the program is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), in that it strengthens fiscal management; and it is consistent with the Fiscal Management Sector Framework Document (document GN-2831-13), as it promotes medium-term fiscal sustainability. Likewise, it is consistent with the IDB Group’s Gender and Diversity Action Plan 2022-2025 (document GN-3116-1) by strengthening national capacities for the incorporation of gender and diversity in the design of public procurement management systems. It is also aligned with the Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy Integrated Strategy for Climate Change Mitigation and Adaptation and

Sustainable and Renewable Energy - Action Plan (2012-2015) (document GN-2609-3) since it strengthens Chile's institutional capacity to face the challenges of climate change, and with the IDB Group Climate Change Action Plan 2021-2025 (document GN-2848-8), given that it works with public expenditure management agencies on mainstreaming climate change objectives in the reform of the procurement system. Finally, it is aligned with the Employment Action Framework with Gender Perspective (documents OP-2289-1 and GN-3057) as it includes analysis, interventions, and indicators related to the business and entrepreneurship pillar (subcomponent 1.1). Given that it also mainstreams gender perspective in this pillar, it is classified as Category 1 of that action framework.

- 1.13 **The Bank's country strategy with Chile.** The program is aligned with the IDB Group's Country Strategy with Chile 2022-2026 (document GN-3140-3), in particular the objectives of: (i) improved access to and quality of public services; (ii) improvement of the efficiency and quality of Chilean institutions; and (iii) improve productivity. Lastly, the operation is included in the Update of the Annex III of the 2023 Operational Program Report (document GN-3154-3), as part of the 2024 indicative pipeline of sovereign guaranteed operations.
- 1.14 **Gender and diversity analysis.** There are still gender gaps where public procurement is concerned.<sup>20</sup> Ninety-seven percent of suppliers participating in Mercado Público are smaller companies that account for 37% of transaction amounts. Twenty-five percent of the companies participating in Mercado Público are women-led; of those, 65% operate on Mercado Público.<sup>21</sup> Only 26% of the total value of transactions by individuals on Mercado Público corresponds to women.<sup>22</sup> In the case of persons with disabilities, only 43.9% are economically active (versus 68% of persons without disabilities) and their income is 20% lower. Public procurement can counter inequalities by encouraging contracts with companies led by women and persons with disabilities. To that end, ChileCompra will suggest inclusivity clauses to be included in the electronic forms of the bidding conditions and other contracting processes, as well as improvements in system accessibility to increase the participation of persons with disabilities.<sup>23</sup>

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<sup>20</sup> The following barriers have been identified to women-led businesses in Mercado Público: (i) scant gender training and awareness, in reference to the lack of knowledge on the part of authorities and officials about gender inequalities and their expression in Mercado Público; (ii) the design of bidding conditions, due to complex bidding procedures that are hard to understand, unreasonable technical and financial eligibility requirements, overly demanding evaluation criteria, etc.; (iii) contract execution, due to weak feedback from contracting entities and delayed payments to suppliers; and (iv) advertisement of tenders, owing to limited access to information on tender opportunities, due both to lack of dissemination and inquiry restrictions. [Comunidad Mujer, 2019](#).

<sup>21</sup> A total of 24,500 companies had obtained the woman-owned business certification by the end of 2022 (ChileCompra, 2023).

<sup>22</sup> According to ChileCompra's own data for 2022, women accounted for only US\$232.6 million of the total value of transactions (US\$888.5 million) by natural-person suppliers on the Mercado Público platform.

<sup>23</sup> According to an accessibility analysis of the websites of 23 public services, including ChileCompra, it was concluded that "most pages contain a wide range of errors, confirming that the current state of the law is not sufficient to ensure that minimum levels of accessibility on government portals are met." This has serious implications in terms of access to information for persons with disabilities in Chile and the problem may become more acute in the context of the pandemic due to the digitalization of many State services." (LIP, Pontificia Universidad Católica de Chile, 2022).

- 1.15 **Paris Alignment.** This operation has been reviewed using the [Joint MDB Assessment Framework](#) for Paris Alignment and the [IDB Group Paris Alignment Implementation Approach](#) (document GN-3142-1); it has been determined to be: (i) aligned with the Paris Agreement adaptation target; and (ii) aligned with the Paris Agreement mitigation target based on specific analysis. The alignment was based on the consideration of the following elements: (i) the financing of data center services is not inconsistent with the goals of Chile's Nationally Determined Contributions or its Long-Term Strategy; and (ii) the procurement of data center services through new tenders will incorporate environmental efficiency criteria in the bidding terms, which mitigates the risk of committed emissions. For more details, see [optional link 3](#).
- 1.16 **Climate change considerations.** The operation includes measures to mitigate emissions in the public procurement sector by developing a calculator to measure the sector's carbon footprint and a circular public procurement platform designed to promote the reuse of State assets among institutions.

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

- 1.17 The general development objective of the program is to improve the efficiency and transparency of government procurement spending. The specific development objective is to improve the efficiency and transparency of the Public Sector Procurement and Contracting System (SCCP).
- 1.18 **Component 1. Regulatory and organizational strengthening of the SCCP (US\$4.5 million).** The objective of this component is to ensure the transition and effective adoption of the reforms to the Public Procurement Law and its organizational environment. The component will include the following subcomponents and activities:
- a. **Subcomponent 1.1. Support for users in the adoption and dissemination of the reforms to the Public Procurement Law (US\$1.6 million).** The following activities will be financed: (i) development of a repository with directives, instructions, and conditions of use in accordance with the public procurement regulations; (ii) development of the new user service system; (iii) design and implementation of a strategy for the adoption and dissemination of Law 19.886 as amended by the new Law and its regulations that promotes the participation of women-led companies and sustainability in public procurement, including suggested clauses in the electronic forms of the bidding conditions and other contracting processes that foster the inclusion of companies led by women and persons with disabilities;<sup>24</sup> (iv) implementation of strategies to support the incorporation of new system users, including: (a) an onboarding program for new agencies, workshops with smaller companies and sector associations; (b) workshops with corporations and municipalities, local suppliers, and service heads; and (c) incorporation of work tenders and

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<sup>24</sup> The clauses suggested by ChileCompra are proposed for the electronic forms of the bidding conditions in order to facilitate the use and incorporation of inclusive clauses by public entities that use the public procurement system in their contracting processes. They are expressed as bid evaluation criteria, as explained in: (i) ChileCompra Directive 17, approved by Exempt Resolution 224-B of 2014, updated by Exempt Resolution 175-B of 5 April 2022; and ChileCompra Directive 20, approved by Exempt Resolution 523-B of 12 November 2015, updated by Exempt Resolution 634-B of 8 November 2022.



contracts of the Ministry of Public Works (MOP) and Ministry of Housing and Urban Development (MINVU); and (v) design and implementation of a training and education program for users on regulatory changes.

- b. **Subcomponent 1.2. Support for strengthening the Observatory to improve the efficiency and effectiveness of procurement processes (US\$1.8 million).** The following activities will be financed: (i) automated review of procurement processes, including efficiency and effectiveness alert models; (ii) implementation of public procurement analytics with machine learning for the design and training of risk management models; (iii) implementation of text analytics in public procurement; (iv) implementation of a new data governance model, including the expansion of technology resources, and capacity-building for the established data governance model; (v) design and implementation of a data reporting and publication system; and (vi) proposed carbon footprint measurement system (calculator).
  - c. **Subcomponent 1.3. Support for the consolidation of new ChileCompra responsibilities (US\$1.0 million).** The following activities will be financed: (i) implementation of an internal cultural, organizational, and technical change management support plan, including the design of a change management plan, its implementation (with associated equipment and space adjustments) and monitoring tools; and (ii) implementation of internal processes and systems that improve institutional capacity, including a diagnostic assessment of the institutional mapping of processes, update and redesign of the main processes, and implementation and roll-out of improvements, including cybersecurity and robotization aspects.
- 1.19 **Component 2. Strengthening and evolution of the public procurement technology system (US\$14.5 million).** The objective of this component is to strengthen and modernize the public procurement technology system to ensure an efficient, secure platform that can be adapted to regulatory changes.
- 1.20 The following activities will be financed: (i) standardization and approval of common technology components (crosscutting) for the Mercado Público platform; (ii) augmentation of information technology infrastructure and its performance, including: increased memory and storage capacity at the datacenter, with servers that incorporate best practices in terms of sustainability and energy efficiency, and licenses for new technology tools; (iii) migration of the platform to modular systems in the new technology stack, creating a new parallel infrastructure with new security services; (iv) design and implementation of a new data architecture model; and (v) development and implementation of technology projects necessary for the implementation of regulatory changes, adopting universal accessibility standards to allow access to persons with disabilities,<sup>25</sup> including: (a) development of new procuring entity module; (b) development of solutions for new suppliers; (c) development of new direct contracting procurement module; (d) improvement of the fast procurement module; (e) development of improvements to the supplier roster; (f) development of procuring entity file module; (g) developments to expand

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<sup>25</sup> Decree 1 of 2015 of the Ministry General Secretariat of the Presidency, which approves the *Norma Técnica Sobre Sistemas y Sitios Web de los Órganos de la Administración del Estado* (Technical Standard on Systems and Websites of State Administration Bodies).

the information available on public procurement in line with the Open Data standard of the Government of Chile; (h) developments to aid transparency of information on civil servants involved in procurement processes; (i) development of the circular economy platform, which seeks to promote the reuse of State property among public institutions; (j) development of the reverse auction module; (k) development of module functionalities for innovation contracts and competitive dialogues; and (l) developments for holding Ministry of Public Works (MOP) and Ministry of Housing and Urban Development (MINVU) works tenders in the public procurement system.

- 1.21 **Administration and evaluation (US\$1 million).** Funds will be provided to cover: (i) administrative expenses of the program execution unit; and (ii) midterm and final evaluations.

**C. Key results indicators**

- 1.22 The general development objective will be measured by the following indicators: (i) savings in competitive bidding procurement processes; (ii) increase in the number of transactions reported in the Mercado Público system; (iii) increase in the number of entities with a woman-owned business certification participating in Mercado Público; and (iv) increase in the number of smaller companies participating in Mercado Público. The specific development objective will be measured in terms of: (i) reductions in ChileCompra's operating-cost-to-value ratio with respect to the transacted value on the Mercado Público platform; (ii) the increase in the percentage of findings corrected in a timely manner by agencies in public tenders; and (iii) the increase in the APDEX indicator, which measures user satisfaction with the system.
- 1.23 **Beneficiaries.** The program will indirectly benefit the general population through greater efficiency and transparency in public spending, which will be achieved by identifying savings in public management that can be reallocated to spending priorities, as well as by reducing administrative costs. It will directly benefit government agencies, ChileCompra and its employees, and government procuring entities, which will have access to better public procurement systems and new procurement tools. The program will also directly benefit government suppliers, especially local suppliers, smaller companies, and companies led by women and persons with disabilities, as they will have more business opportunities and better access to the system.
- 1.24 **Economic evaluation.** The economic evaluation ([optional link 1](#)) is founded on a cost-effectiveness and ex ante cost-benefit analysis based on the identification of the costs and benefits of the effects generated within the framework of the program. This economic analysis is based on a set of indicators linked to the efficiency of public management processes, which are included in the program's Results Matrix. The cost-effectiveness analysis shows that, as a consequence of the program's actions focused on strengthening management capabilities and new technology developments and systems, the implementation of the program is expected to generate a reduction in the average cost-effectiveness ratio from US\$717 per US\$1 million transacted in the scenario without program to US\$699.5 in the scenario with program, i.e., US\$17.5 less than the scenario without program. It is deduced, therefore, that the program is cost-effective.

- 1.25 The ex ante cost-benefit analysis considered the total investment amount of US\$20 million. Added to this investment cost were the costs associated with the depreciation of equipment, applications, and computer licenses. On the benefits side, the savings accrued from the increase in the fast procurement threshold (which reduces the number of public tenders) were considered, as were the savings derived from improved error detection in programming and cloud storage. The result shows that the benefits of the program equal the costs at an internal rate of return of 14.2%, making the program efficient and superior to either of the alternative discount rates (6% and 12%). An exercise to estimate the robustness of the cost-benefit analysis determined that benefits would have to be reduced by 8%, which is highly unlikely, for the internal rate of return to be less than 12%.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 This operation will be financed with a specific investment loan since the outputs to be financed are associated with specific objectives and its execution is linked to the indivisibility of the program. The loan amount will be up to US\$20 million and will be financed with resources from the Bank's Ordinary Capital. The distribution of proceeds by funding source and category is described in Table 1.

**Table 1. Estimated program costs (US\$)<sup>26</sup>**

Components	Total	%
<b>Component 1. Regulatory and organizational strengthening of the SCCP</b>	<b>4,506,044</b>	<b>22.53</b>
Subcomponent 1.1. Support for users in the adoption and dissemination of the reforms to the Public Procurement Law	1,637,633	8.18
Subcomponent 1.2. Support for strengthening the Observatory to improve the efficiency and effectiveness of procurement processes	1,842,646	9.21
Subcomponent 1.3. Support for the consolidation of new ChileCompra responsibilities	1,025,765	5.12
<b>Component 2. Strengthening and evolution of the public procurement technology system</b>	<b>14,493,956</b>	<b>72.47</b>
<b>Administration and evaluation</b>	<b>1,000,000</b>	<b>5.00</b>
<b>Total</b>	<b>20,000,000</b>	<b>100.00</b>

<sup>26</sup> The costs by activity in each component are indicative. Provided that the program objectives are not changed, the distribution of resources chargeable to the loan by component and subcomponent may be modified by written agreement between the borrower, through the executing agency, and the Bank.

- 2.2 **Program resources and disbursement schedule.** The disbursement period will be four years,<sup>27</sup> as shown in Table 2.

**Table 2. Disbursement schedule (US\$ 000)**

Source	Year 1	Year 2	Year 3	Year 4	Total
IDB	6,693	6,525	3,503	3,279	<b>20,000</b>
% (total)	33	33	18	16	<b>100</b>
% (cumulative disbursement)	33	66	84	100	<b>100</b>

**B. Environmental and social risks**

- 2.3 In accordance with the IDB Environmental and Social Policy Framework (document GN-2965-23), the program was classified as a category “C” operation, as it is expected to cause minimal or no negative environmental or social impacts. Environmental and Social Performance Standards 1, 2, and 10 were triggered, and actions will be considered during project design, as defined at [optional link 4](#).

**C. Fiduciary risks**

- 2.4 Country systems (budget, treasury, accounting and reporting, internal and external audit), as well as Chile’s national procurement system, will be used in operations financed by the IDB. The result of the executing agency’s institutional capacity analysis has confirmed that it has the necessary financial management tools, procurement instruments, and control systems, and that its institutional capacity is satisfactorily developed. As regards the economic and financial environment, there is a high fiduciary risk. If there is an insufficient supply of technology development providers, bidding processes could be delayed, and therefore so too could the implementation of program activities. To mitigate this, the program execution unit will establish purchasing strategies that enable greater competition, in addition to which market outreach events will be organized.

**D. Other key issues and risks**

- 2.5 A high risk is identified in the area of human resources. If specialized technical personnel are not available for the parallel execution of technology projects and regulatory developments, projects could fail and be carried out with low quality standards, resulting in a loss of operational continuity for ChileCompra. In order to mitigate this risk, hiring strategies will be designed so that personnel area available to provide services to ChileCompra (e.g., promotion, part-time, etc.), as will a selection and hiring plan, including the definition of profiles and processes differentiated according to the complexity of the position (paragraph 1.19).

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<sup>27</sup> Project execution envisages a four-year timeframe for disbursements, in line with the programming of activities and in accordance with the implementation deadlines of the new procurement law, for which the maximum term is 24 months, with chapters that came into effect upon its publication on 11 December; others come into effect in 12 months and others in 18 months. The executing agency is already established and has the organizational capacity to carry out the planned activities, which it has already begun to implement.

- 2.6 A medium-high sustainability risk is that if budgetary resources are not allocated to maintain the investments made, those investments could quickly become obsolete and systems could become outdated, impairing the sustainability of the operation. To mitigate this risk, ChileCompra will make a commitment to maintain the investments made under the infrastructure and systems program and to strengthen internal capabilities required by the new technologies that are incorporated.
- 2.7 **Sustainability.** For the changes mandated by the new procurement law to be implemented, the project requires a significant investment at an initial stage to finance in tandem the activities of the current public procurement system and the development and implementation of the new technology modules that will gradually come into operation, cybersecurity enhancements, the onboarding of new users, the new procedures, and the new functions of ChileCompra. In a second stage, once the new technology developments are operational, and the procurement system is operating with the framework for new users, the use of cloud services, and the new functions of ChileCompra, in the medium and long term, financing for the operation will come from the increased institutional budget that ChileCompra will seek in the relevant annual national budgets. Program sustainability will be assured by the sequenced implementation of the new procurement law, which the operation will support at every step.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Execution mechanism.** The borrower is the Republic of Chile, which will act through the executing agency, ChileCompra. The executing agency will have a program execution unit that will include at least one technical coordinator and, on a full-time basis, an information technology advisor, a financial management specialist, a procurement specialist, and a planning and monitoring specialist. The program execution unit will be in charge of the overall execution, management, and coordination of the program and will act as a direct interlocutor with the Bank. The program execution unit will also be in charge of the financial and accounting management of the operation. The main functions of the program execution unit will be: (i) technical and operational coordination of the program; (ii) programming interventions; (iii) approval and financing of interventions; (iv) supervision of the formulation, implementation, and evaluation of interventions; and (v) intra-agency coordination with other departments and divisions within ChileCompra.
- 3.2 **Inter-agency and institutional coordination.** The executing agency will be linked to the Secretariat of State Modernization of the Ministry of Finance,<sup>28</sup> which will support strategic coordination for the implementation of Law 19.886, as amended by the new law, with other public entities that are part of the State modernization agenda. The executing agency, through the program execution unit, will ensure effective coordination between the different operational areas of the entity that will be involved in the program. In particular, the Administration and Finance

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<sup>28</sup> Its function is to design, manage, and support the development of crosscutting State modernization projects, including implementation of the new law by ChileCompra.

- Department, which reports to ChileCompra's Institutional Management and Strategy Area, is responsible for supporting the institution in the execution of purchasing processes and financial management, which will carry out these tasks in coordination with the program execution unit team and ChileCompra's technical business areas that determine the technical requirements of each purchase. Similarly, as regards the financial management of the program, the program execution unit will monitor the projects in coordination with ChileCompra's Administration and Finance Department. The documentation will be reviewed by the UEP; the program accounting will be performed in coordination with the Administration and Finance Department, as will the preparation of the financial statements to be submitted annually.
- 3.3 The program will be governed by [program Operating Regulations](#), which will include: (i) the program's organizational structure; (ii) technical and operational arrangements for its execution; (iii) programming, monitoring, and results evaluation; (iv) guidelines for financial, audit and procurement processes; and (v) details of the program execution unit's functions, as well as the responsibilities of other relevant area within the executing agency for the key processes envisaged in this operation; and (vi) details of the activities under the program's various components.
- 3.4 **Special contractual conditions precedent to the first disbursement of the loan. As special contractual conditions precedent to the first disbursement, the borrower, acting through the executing agency, will present evidence of: (i) approval and entry into force of the [program Operating Regulations](#), under the terms and conditions previously agreed upon with the Bank; (ii) the establishment of a program execution unit in ChileCompra; and (iii) the appointment or hiring, as appropriate, in the program execution unit of, at a minimum, a technical coordinator and, on a full-time basis, a financial management specialist, a procurement specialist, a planning and monitoring specialist, and an information technology advisor.** These conditions are essential to ensuring the proper execution of the program.
- 3.5 **Fiduciary Agreements and Requirements.** Annex III contains the procurement execution and financial management guidelines to be applied to the program. Any procurement financed in whole or in part with loan proceeds will be carried out in accordance with the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-15).
- 3.6 **Direct contracting.** Six direct contracting procedures are planned in order to ensure the continuity of services through the acquisition of: (i) CRM licenses for US\$123,376.70; (ii) Power BI PRO (+20) licenses for US\$10,595.74; (iii) Datawarehouse storage service for US\$58,853.21; (iv) SQL Server Engine service for US\$58,853.21; (v) 45 licenses (MS for Access, Azure, JIRA) for US\$245,096.77; and (vi) Coverity license for US\$165,783.69. In this regard, the executing agency reports that it is not feasible to acquire alternative products, as this would involve changing the technology infrastructure already acquired, which would entail very high risks and costs that could impact the correct operation of the available platforms. These procurement items are not very complex and for a low amount, as provided in paragraphs 3.7 (c) and (d) of the Policies for the

Procurement of Goods and Works Financed by the IDB (document GN-2349-15), since the borrower's request is based on the assumption set forth in the national regulations that establish that this type of contracting is appropriate: "When the contracting in question can only be carried out with suppliers that are holders of the respective intellectual and industrial property rights, licenses, patents, etc." (Art. 10 (7)(e) of the Rules on Implementation of Law 19.886, D.S.(H) No. 250). Loan proceeds may be disbursed in the form of advances of funds, expenditure reimbursements, and direct payments to suppliers. In the case of advances of funds, disbursements will be made based on expenditure projections for up to 180 days. Such disbursements will be governed by the provisions of the Financial Management Guidelines for IDB-financed Projects (document OP-273-12 or version in force at the time of execution). Disbursements after the first disbursement will be subject to substantiation of 65% of the cumulative balance pending substantiation.

- 3.7 **Retroactive financing of expenses.** The Bank may retroactively finance from loan proceeds, in a total amount up to US\$4,000,000 (20% of the proposed loan amount), eligible expenditures incurred by the borrower prior to the loan approval date on consulting services (for studies and diagnostic assessments, as well as those required for the program execution unit team) and on equipment, provided that requirements substantially similar to those stipulated in the loan contract have been met and the procurement procedures are in accordance with core procurement principles. Such expenditures must have been incurred on or after 3 November 2023 (the project profile approval date), provided that they are related to the scope of the program results, but they will in no case include expenditures incurred more than 18 months prior to the loan approval date. See Bank Policy on Recognition of Expenditures, Retroactive Financing, and Advance Procurement (document GN-2259-1).
- 3.8 The rationale for the retroactive financing is that the new law provides for the gradual entry into force of its chapters, for up to 24 months from its publication on 11 December 2023. Therefore, the execution of activities under the program's three components has been programmed within a limited period of time, and terms of reference and bidding conditions have already been prepared for the contracting required for the technology projects to be executed in the course of the first year following the law's entry into force, during which new public entities and new users are expected to be incorporated into the public procurement system and ChileCompra will assume new functions. These activities pertain to components 1 and 2.
- 3.9 **Audited financial statements.** Within 180 days after the close of each fiscal year and during the original loan disbursement period or extensions thereof, the executing agency will submit to the Bank annual audited financial statements for the program. The audit will be carried out by an independent auditing entity acceptable to the Bank, including the Comptroller General of the Republic. The scope and other related aspects will be governed by the Financial Management Guidelines for IDB-financed Projects (document OP-273-12 or the version in force at the time of execution). The final report will be delivered within 180 days of the date established for the final disbursement of the loan.

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

- 3.10 **Monitoring.** For the activities under its responsibility, the executing agency will prepare reports indicating progress made and outcomes achieved. The monitoring mechanism will include the [procurement plan](#), the [multiyear execution plan](#), the [annual work plan](#), the Results Matrix (Annex II), the progress monitoring report, and the risk management plan. The executing agency will submit semiannual reports to the Bank on progress and results achieved, including an action plan for the following six-month period, within 60 days after the end of every six-month period. The first [multiyear execution plan](#) and [annual work plan](#) for the program will be submitted to the Bank prior to the start-up workshop. The [multiyear execution plan](#) will include the complete planning of the program and the critical path of milestones or actions to be met for the loan to be disbursed on schedule. The contents of the [annual work plan](#) should take the guidelines established by the Bank into account. The second and subsequent [multiyear execution plans](#) and [annual work plan](#) should be submitted to the Bank during the original disbursement period or extensions thereof no later than November 30 each year.
- 3.11 **Evaluation.** The program will be evaluated according to the outcome and output targets and annual indicators that make up the program's Results Matrix based on a before/after results comparison. The [monitoring and evaluation plan](#) calls for an independent midterm evaluation within 90 days after 36 months following the effective date of the loan contract or following the date on which 50% of the loan proceeds have been disbursed, whichever occurs earlier, and a final evaluation, to be submitted to the Bank within 90 days after the date on which 90% of the loan proceeds have been disbursed. The evaluation reports will serve as input for the project completion report (PCR), which will examine the results achieved, which will be measured in terms of achievement of the targets and performance of the indicators contained in the Results Matrix (Annex II). The evaluation presented in the PCR will assess whether the investments financed were effective and contributed to the achievement of the specific objectives. The PCR will be submitted within the timeframe established in the Development Effectiveness Framework or other Bank rules in force. In addition, an impact evaluation is planned, using the difference-in-differences method, of the effectiveness of the operation's investments focused on strengthening the technology system and the ChileCompra Observatory.



Development Effectiveness Matrix		
Summary		CH-L1178
<b>I. Corporate and Country Priorities</b>		
<b>Section 1. IDB Group Strategic Priorities and CRF Indicators</b>		
Development Challenges & Cross-cutting Issues	<ul style="list-style-type: none"> <li>-Productivity and Innovation</li> <li>-Gender Equality and Diversity</li> <li>-Climate Change</li> <li>-Institutional Capacity and the Rule of Law</li> </ul>	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	<ul style="list-style-type: none"> <li>-Countries with strengthened gender equality and diversity policy frameworks (#)</li> <li>-Targeted beneficiaries of public services that have been adapted for diverse groups (#)</li> <li>-Countries with strengthened tax and expenditure policy and management (#)</li> <li>-Agencies with strengthened digital technology and managerial capacity (#)</li> <li>-Agencies with strengthened transparency and integrity practices (#)</li> </ul>	
<b>2. Country Development Objectives</b>		
Country Strategy Results Matrix	GN-3140-3	(i) Improved access to and quality of public services; (ii) Improvement of the efficiency and quality of Chilean institutions; and (iii) Improve productivity.
Country Program Results Matrix	GN-3154-3	The intervention is included in the 2023 Operations Program as part of the 2024 Indicative Pipeline for Sovereign Guaranteed Operations.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
<b>II. Development Outcomes - Evaluability</b>		<b>Evaluable</b>
<b>3. Evidence-based Assessment &amp; Solution</b>		<b>9.0</b>
3.1 Program Diagnosis		2.0
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.5
<b>4. Ex ante Economic Analysis</b>		<b>10.0</b>
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.5
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
<b>5. Monitoring and Evaluation</b>		<b>9.5</b>
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
<b>III. Risks &amp; Mitigation Monitoring Matrix</b>		
Overall risks rate = magnitude of risks*likelihood		Medium High
Environmental & social risk classification		C
<b>IV. IDB's Role - Additionality</b>		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit. Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary		
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		

The program is structured as a Specific Investment Loan, with a loan amount of US\$20 million to be disbursed over a period of 4 years. The program's general objective is to enhance the efficiency and transparency of the State's public procurement expenditure. The unique specific development objective consists in improving the efficiency and transparency of the Public Sector Purchasing and Contracting System. The current macroeconomic context, the goals and relevance of the Fiscal Pact, and the recent enactment of Law No. 21,634 make the program a priority to strengthen the state procurement system and technologically renew Chilecompra. The program will help not only to meet the expected new demand but also enhance the quality and efficiency of public spending.

The proposal of development provides a solid diagnosis of the problem, defining 10 relevant determinants, whose include deficiencies in: (i) the internal organization; (ii) the monitoring of public procurements; and (iii) technological aspects of the platform. The proposal is relevant, describes opportunities, and highlights the main social benefits expected from the project's implementation. The proposed activities/products are grouped into 2 components, which are related and aligned to achieve the specific objective.

The Results Matrix is consistent with the project's vertical logic and includes appropriate result indicators. The monitoring and evaluation plan includes suitable measures for tracking the proposed indicators and a reasonable schedule for the delivery and execution of products. The program proposes an ex-post evaluation using the before-after methodology for each of the outcome and impact indicators. Additionally, the program suggests a quasi-experimental evaluation using the staggered difference-in-differences methodology to assess the program's effect at both the impact and outcome levels (indicators associated with savings generated in public procurements, the number of transactions executed on the platform, and the monitoring of procurements' inconsistencies).

The project presents a cost-benefit analysis (CBA) and a cost-effectiveness analysis (CEA). The quantified benefits in the CBA come from (in order of importance): (i) operational efficiency gains due to the change in procurement modalities; (ii) the automation of the process detecting errors; and (iii) savings from cloud file storage. An Economic Social Rate of Return of 14.2% is estimated in the base scenario. The CEA considers the operating cost relative to the traded value as a variable of analysis and concludes that, in the program scenario, US\$17.5 per million transacted will be saved in comparison to the scenario without the program. Both analyses are appropriate and include a sensitivity analysis to test the assumed base scenario.

## RESULTS MATRIX

<b>Project objective:</b>	The specific development objective is to improve the efficiency and transparency of the Public Sector Procurement and Contracting System (SCCP). Achieving this objective will contribute to the program's general development objective of improving the efficiency and transparency of government procurement spending.
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### GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
<b>General development objective: To improve the efficiency and transparency of government procurement spending</b>							
Savings in competitive bidding procurement processes	Percentage	5.3	2023 (January-September)	2027	5.8	ChileCompra report	The indicator measures the savings in competitive bidding procurement processes with respect to the transaction value. <sup>1</sup> <b>Methodology:</b> The numerator is the cumulative value of savings generated in tenders, with the awarded price in each tender compared with the average price of the bids received in the previous year. The denominator is the cumulative value of the total transacted value in the previous year. ChileCompra's own methodology. <b>Baseline: 5.3%</b> = US\$273 million/US\$5.120 billion. <b>Target: 5.8%</b> represents an increase in cumulative savings of 10% with respect to the cumulative transacted value. <sup>2</sup>
Transactions reported in the Mercado Público system	Percentage	0	2022	2027	8	ChileCompra report	The indicator measures the increase in Mercado Público transactions as a proxy for the increase in publicly available and accessible information on public procurement processes. <sup>3</sup> <b>Methodology:</b> Cumulative number of transactions. ChileCompra's own methodology.

<sup>1</sup> Public bidding processes account for 69% of total transactions on Mercado Público. Source: Resultados 2022, ChileCompra. Competitive process refers to a process of the "competitive bidding" type and is published in the public access portal.

<sup>2</sup> The target for this impact indicator and the other impact and result indicators are consistent with ChileCompra's estimates, taking into account the indicator's trend in recent years and the expected effect of the program.

<sup>3</sup> Prior to the entry into force of the modernization reforms of the Procurement Law (Law 19.886), information on procurement processes by entities not required to report on Mercado Público is not available or is scarce and of limited quality.

Indicators	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
							<p><b>Baseline:</b> The total number of transactions (purchase orders) recorded in the Mercado Público system in the previous year was 1.8 million.</p> <p><b>Target:</b> 8% increase in the number of transactions registered in the Mercado Público platform.<sup>4</sup></p>
Entities with woman-owned business certification transacting in the Mercado Público	Percentage	0	2022	2027	25	ChileCompra report	<p>The indicator measures the transparency of the participation of suppliers with woman-owned business certification in the Mercado Público.</p> <p><b>Methodology:</b> Percentage of suppliers with woman-owned business certification participating in the Mercado Público. ChileCompra's own methodology.</p> <p><b>Baseline:</b> 0% increase on the 21,178 individuals and companies with woman-owned business certification registered in 2022.</p> <p><b>Target:</b> 25% increase over 21,178.</p>
Smaller companies participating in Mercado Público	Percentage	0	2023	2027	10	ChileCompra report	<p>The indicator measures the percentage increase in smaller companies (with revenues between 2,400 and 25,000 UF) participating in the Mercado Público platform. The indicator measures greater transparency about the participation of smaller companies in public procurement processes.</p> <p><b>Methodology:</b> Percentage increase in the number of smaller companies participating. ChileCompra's own methodology.</p> <p><b>Baseline:</b> 71,989 companies.</p> <p><b>Target:</b> Cumulative increase of 10%</p>

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<sup>4</sup> A 35% increase in the number of procuring entities is expected, as is a 20% increase in the number of suppliers. Given the incorporation of smaller entities and suppliers, the increase in the number of transactions is expected to be proportionally lower than the increase in the number of actors participating.

**SPECIFIC DEVELOPMENT OBJECTIVE**

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Project completion	Means of verification	Comments
<b>Specific development objective: To improve the efficiency and transparency of the Public Sector Procurement and Contracting System (SCCP)</b>										
Operating cost with respect to transacted value	Percentage	0.08	2022	0.08	0.08	0.075	0.072	0.072	ChileCompra report	<p>The indicator measures ChileCompra's operating efficiency.</p> <p><b>Methodology:</b> The cost-efficiency ratio compares the cost of operations with the total transacted traded.<sup>5</sup></p> <p>ChileCompra's own methodology.</p> <p><b>Baseline:</b> 0.08% = US\$12.08 million/US\$15.023 billion (2022).</p> <p><b>Target:</b> 0.072% represents an efficiency increase expressed as a decrease in the ratio of 10%.</p>
Percentage of findings corrected in a timely manner by agencies in public tenders. <sup>6</sup>	Percentage	46.8	2023 (January-June)	50	50	50	60	60	ChileCompra Observatory report	<p>The indicator measures the efficiency of ChileCompra's management in competitive public procurement processes.</p> <p><b>Methodology:</b> The ratio of inconsistencies detected and corrected in a timely manner (prior to award) to total inconsistencies detected. ChileCompra's own methodology.</p> <p><b>Baseline:</b> 46.8% = 80/171.</p> <p><b>Target:</b> 60% represents an improvement in efficiency expressed as a 30% increase in value over the baseline.</p>

<sup>5</sup> The operating cost includes the budget allocated to personnel, purchases of goods and services, and procurement of licenses and assets, and corresponds to Subtitles 21, 22, and 29 of the Budget Law.

<sup>6</sup> A finding corresponds to observations identified and formally transmitted by the Observatory to the agencies responsible for procurement processes and which involve signs of omissions, anomalies, or irregularities that must be corrected or remedied in order to effectively comply with the provisions of the Public Procurement Law (Law 19.886) and its implementing regulations. A specific definition of the findings relevant to each procurement procedure is contained in official methodological documents prepared and periodically updated by the Observatory.

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Project completion	Means of verification	Comments
Application Performance Index (APDEX)	Percentage	85	2023	85	87	87	90	90	ChileCompra report based on the infrastructure provider's report	<p>The indicator measures the responsiveness of ChileCompra's technological system to the needs of users.</p> <p><b>Methodology:</b> APDEX is a standard for evaluating user satisfaction with the system, measured by the promptness of the system's response. The value range is 0% to 100%, with 100% being the best achievable value. The values are classified as: not acceptable if they are less than 50%; poor if they are between 50% and 69%; fair between 70% and 79%; good between 80% and 89%; and excellent between 90% and 100%.<sup>7</sup></p> <p><b>Baseline:</b> 85%.</p> <p><b>Target:</b> 90% (Excellent rating).</p>

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<sup>7</sup> For more information, click [here](#).

**OUTPUTS**

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Project completion	Means of verification
<b>Component 1. Regulatory and organizational strengthening of the SCCP</b>									
<b>Subcomponent 1.1. Support for users in the adoption and dissemination of the reforms to the Public Procurement Law</b>									
1.1.1 Repository with directives, instructions, and conditions of use prepared and/or updated in accordance with the procurement regulations, developed	Document	0	2023	0	1	0	0	1	Document prepared
1.1.2 New user assistance system, developed	System	0	2023	0	1	0	0	1	User assistance system in operation
1.1.3 Strategy for the adoption and dissemination of the new law and its regulations to promote the participation of women-led businesses and sustainability in public procurement, designed and implemented	Document	0	2023	0	0	1	0	1	Implementation report. Pro-gender
1.1.4 Support strategy for the incorporation of new system users, implemented	Document	0	2023	0	1	0	0	1	Report on the implementation of training programs in the platform
1.1.5 Training and education program for users on regulatory changes, designed and implemented	Document	0	2023	0	1	0	0	1	Program implementation report.
<b>Subcomponent 1.2. Support for strengthening the Observatory to improve the efficiency and effectiveness of procurement processes</b>									
1.2.1 Automated review of purchasing processes, implemented	Tool	0	2023	0	1	0	0	1	Implementation report and technical documentation of the solution
1.2.2 Public procurement analytics with machine learning, implemented	Tool	0	2023	0	0	0	1	1	Implementation report and technical documentation of the solution
1.2.3 Text analytics in public procurement, implemented	Tool	0	2023	0	0	1	0	1	Implementation report and technical documentation of the solution
1.2.4 Data governance model, implemented	Model	0	2023	0	0	0	1	1	Implementation report and technical documentation of the solution
1.2.5 Data reporting and publication system, designed and implemented	System	0	2023	0	0	1	0	1	Panel published
1.2.6 Carbon footprint measurement system (calculator) proposal, developed	Document	0	2023	0	0	1	0	1	Proposal report

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Project completion	Means of verification
<b>Subcomponent 1.3. Support for the consolidation of new ChileCompra responsibilities</b>									
1.3.1 Support plan for internal change management, implemented	Plan	0	2023	0	0	0	1	1	Implementation report.
1.3.2 Internal process systems that improve institutional capacity, implemented	Systems	0	2023	0	4	6	6	16	Implementation report.
<b>Component 2. Strengthening and evolution of the public procurement technology system</b>									
2.1 Common technological (crosscutting) components for the platform, standardized and approved	Components	0	2023	2	2	0	0	4	Implementation report and technical documentation of the solution
2.2 Expansion of information technology infrastructure, completed	Project	0	2023	0	1	0	0	1	Implementation report and technical documentation of the solution
2.3 Migration of the platform to modular systems on the new technology stack, creating a new parallel infrastructure, completed	Project	0	2023	0	0	0	1	1	Implementation report and technical documentation of the solution
2.4 New data architecture model, designed and implemented	Model	0	2023	0	0	1	0	1	Implementation report and technical documentation of the solution
2.5 Technology projects necessary to implement regulatory changes consistent with accessibility standards, developed and implemented	Project	0	2023	6	4	1	0	11	Implementation report and technical documentation of the solution Pro-diversity <sup>8</sup>

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<sup>8</sup> The output is pro-diversity because the front-end of the technical solutions will include navigation elements to facilitate access for persons with disabilities, in accordance with industry standards and good practices.

Country: Chile

Division: IFD/FMM

Operation No.: CH-L1178

Year: 2024

### FIDUCIARY AGREEMENTS AND REQUIREMENTS

**Executing agency:** Borrower, through the Public Procurement and Contracting Office (ChileCompra).

**Operation name:** Program to Improve the Quality of Expenditure in Public Procurement.

#### I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

##### 1. Use of country systems in the operation

<input checked="" type="checkbox"/> Budget	<input checked="" type="checkbox"/> Reports	<input checked="" type="checkbox"/> Information systems	<input checked="" type="checkbox"/> National competitive bidding (NCB)
<input checked="" type="checkbox"/> Treasury	<input checked="" type="checkbox"/> Internal audit	<input checked="" type="checkbox"/> Price comparison	<input checked="" type="checkbox"/> Other
<input checked="" type="checkbox"/> Accounting	<input checked="" type="checkbox"/> External control	<input checked="" type="checkbox"/> Individual consultants	

##### 2. Fiduciary execution mechanism

<input checked="" type="checkbox"/>	Specific features of fiduciary execution	The borrower is the Republic of Chile, and the executing agency is the borrower, through the Public Procurement and Contracting Office (ChileCompra). The executing agency will have a program execution unit that will include at least one technical coordinator and, on a full-time basis, an information technology advisor, a financial management specialist, a procurement specialist, and a planning and monitoring specialist. The program execution unit will be in charge of the overall execution, management, and coordination of the program and will act as a direct interlocutor with the Bank. The program execution unit will also be in charge of the financial and accounting management of the operation.
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##### 3. Fiduciary capacity

Fiduciary capacity of the executing agency	<p>The executing agency works within the public financial administration system and uses the State Financial Management Information System (SIGFE) for budgeting, accounting, and payments. It also has an Internal Auditing Unit and is audited by the Office of the Comptroller General of the Republic (CGR). The Bank has determined that the country's own systems (budget, treasury, accounting, government internal auditor (Consejo de Auditoría Interna General de Gobierno (CAIGG), and external auditor (CGR)) are acceptable for use in the Bank's operations.</p> <p>The result of the executing agency's institutional capacity analysis has confirmed that it has the necessary financial management tools, procurement instruments, and control systems, and that its institutional capacity is satisfactorily developed.</p>
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**4. Fiduciary risks and risk response**

<b>Risk taxonomy</b>	<b>Risk</b>	<b>Risk level</b>	<b>Risk response</b>
Economic and financial	Failure to allocate financial resources to start implementing program activities in 2024 could delay the implementation of activities and the achievement of the Law's objectives.	Medium-low	ChileCompra will take the necessary steps to ensure the availability of additional budgetary resources in 2024 to begin implementing the program's activities.
Economic and financial	If there is an insufficient supply of technology development providers, bidding processes could be delayed, and therefore so too could the implementation of program activities.	High	Establish purchasing strategies that enable greater competition and organize market outreach events.

5. **Policies and guidelines applicable to the operation:** The financial management of the program will utilize the Financial Management Guidelines for IDB-financed Projects (document GN-2811-1) (document OP-273-12), as updated. For the purposes of contracting of works and nonconsulting services, as well as procurement of goods, the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-15) will apply; contracting of consulting services will be carried out in accordance with the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-15).
6. **Exceptions to Bank policies and guidelines:** Not applicable.

**II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT**

<p><b>Exchange rate:</b> For the purposes of Article 4.10 of the General Conditions, the parties agree that the applicable exchange rate shall be that indicated in paragraph (b)(i) of said Article. To determine the equivalence of expenditures incurred for the purposes of reimbursement of expenditures under the loan, the agreed exchange rate shall be that of the first business day of the month of payment in which the borrower, the executing agency or any other natural or legal person to whom the authority to make expenditures has been delegated, makes the respective payments in favor of the contractor, supplier, or beneficiary.</p>
<p><b>Audits:</b> Audited financial statements should be submitted within 180 days after the close of each fiscal year and during the original loan disbursement period or extensions thereof; they must be issued by an independent auditing entity acceptable to the Bank. The final report will be delivered within 180 days of the date established for the final disbursement of the loan.</p>

### III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	<p>Bidding documents</p>	<p>For procurements of works, goods, and nonconsulting services executed in accordance with procurement policies (document GN-2349-15) and subject to international competitive bidding (ICB), the Bank's standard bidding documents or those agreed upon between the executing agency and the Bank for the procurement in question will be used. Likewise, the selection and contracting of consulting services will be carried out in accordance with the consultant selection policies (document GN-2350-15) and the standard request for proposals issued by the Bank or agreed upon between the executing agency and the Bank for the selection process concerned will be used.</p> <p>The project's sector specialist is responsible for reviewing the technical specifications and terms of reference for procurement items during preparation of the selection processes. This technical review can be ex ante and is independent from the procurement review method.</p>
<input checked="" type="checkbox"/>	<p>Use of country systems</p>	<p>The Bank used the Methodology for Assessing Procurement Systems (MAPS) to evaluate Chile's procurement system, a technical basis that subsequently supported the validation exercise of the country procurement system for use through document GN-2642-1 (dated 8 December 2011). It was found to be compatible with internationally accepted principles, practices, and standards for all procurement methods, as well as to offer the possibility of participation for bidders from all countries, and will be used for the procurement of goods, nonconsulting services, and consulting services (by companies and individuals), in accordance with the provisions of this Annex.</p> <p>The operation's procurement plan will indicate which contracts will be executed through the country system within the approved scope. Should the scope of the Board's approval for the use of the country system be extended, it will be applicable.</p>
<input checked="" type="checkbox"/>	<p>Direct contracting and selection</p>	<p>Six direct contracting procedures are planned to ensure the continuity of services through the procurement of: (i) CRM licenses for US\$123,376.70; (ii) Power BI PRO (+20) licenses for US\$10,595.74; (iii) Datawarehouse storage service for US\$58,853.21; (iv) SQL Server Engine service for US\$58,853.21; (v) 45 licenses (MS for Access, Azure, JIRA) for US\$245,096.77; and (vi) Coverity license for US\$165,783.69. In this regard, the executing agency reports that it is not feasible to acquire alternative products, as this would imply changing the technological infrastructure already acquired, which would entail very high risks and costs that could impact the correct operation of the available platforms. These procurements are not very complex, for a low amount, and within policy document GN-2349-15, paragraph 3.7 (c) and (d), since the borrower's request is based on the assumption set forth in the national regulations that establish that this type of contracting is appropriate: "When the contracting in question can only be carried out with suppliers that are holders of the respective intellectual and industrial property rights, licenses, patents, etc."</p>

		(Art. 10 (7)(e) of the Implementing Regulations of Law 19.886, D.S.(H) 250).
<input checked="" type="checkbox"/>	Recurrent expenses	Recurrent expenses required to implement the project approved by the project team leader and which are financed will be incurred following the executing agency's administrative procedures. Such procedures will be reviewed and accepted by the Bank, provided that they do not violate the principles of economy, efficiency, and competition (see guidelines for the treatment of recurrent expenditures and expenditure eligibility policy, document GN-2331-5, as updated).
<input checked="" type="checkbox"/>	Retroactive financing	<p>The Bank may retroactively finance from loan proceeds, in a total amount up to US\$4,000,000 (20% of the proposed loan amount), eligible expenditures incurred by the borrower prior to the loan approval date on consulting services (for studies and diagnostic assessments, as well as those required for the program execution unit team) and on equipment, provided that requirements substantially similar to those stipulated in the loan contract have been met and the procurement procedures are in accordance with core procurement principles. Such expenditures must have been incurred on or after 3 November 2023 (the project profile approval date), provided that they are related to the scope of the program results, but they will in no case include expenditures incurred more than 18 months prior to the loan approval date.</p> <p>See Bank Policy on Recognition of Expenditures, Retroactive Financing, and Advance Procurement (document GN-2259-1).</p>
<input checked="" type="checkbox"/>	Procurement supervision	<p>The method of supervision will be ex ante for the first procedure in each category to be performed under the Bank's procurement policies. For procurements executed through the country system, oversight will be through the country oversight system. The choice as to supervision method ((i) ex ante, (ii) ex post, or (iii) national system) must be determined for each selection process. Ex post reviews will be conducted annually in accordance with the project supervision plan, subject to change during execution. Ex post review reports will include at least one visit.</p> <p>The threshold amounts for ex post review will be defined annually based on the amount executed.</p>
<input checked="" type="checkbox"/>	Records and files	The executing agency will be responsible for maintaining the original records of procurement, contracting, and financial management under its responsibility in the framework of the program's execution.

Main procurements

Procurement description	Method of selection	Estimated date	Estimated amount
Firms			
Consulting services for documenting the update of the operational plan (as is - to be)	Quality- and cost-based selection (QCBS)	2023	45,000
Incorporation/development of a new technology platform for parallel modernization development	QCBS	2025	952,000
Development of new stack bidding modules	QCBS	2023	1,043,000.00
Development and implementation of new services required for building planned solutions	QCBS	2025	878,000
Recruitment of profiles for migration of the platform to modular systems in the new technology stack	QCBS	2023	2,042,000
Goods			
CRM licenses	DC	2024	123,376.70
Power BI PRO licenses (+20)	DC	2024	10,595.74
SQL Server Engine service	DC	2024	58,853.21
45 licenses (MS for Access, Azure, JIRA)	DC	2024	245,096.77
Coverity license	DC	2024	165,783.69

For more details, see [procurement plan](#).

#### IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

<input checked="" type="checkbox"/>	<p>Programming and budget</p>	<p>The executing agency's budget is part of the public sector budget, as defined in the Basic Law of Financial Administration of the State (DL 1263/75). The Ministry of Finance through the Budget Division (DIPRES) is responsible for preparing the public sector budget. Due to the interrelation of budgetary systems, loan operations must be included in the public sector budget in order to access financing resources. All loan operations must comply with the expenditure framework of the public sector budget.</p>
<input checked="" type="checkbox"/>	<p>Treasury and disbursement management</p>	<p>The loan proceeds will be deposited in the dollar account held by the General Treasury of the Republic at Banco Estado. According to the pilot procedure agreed with DIPRES, payments to suppliers will be made directly by the General Treasury of the Republic through the Treasury Single Account and payments linked to individual consultants will be made from the peso bank account that will be opened for the exclusive and separate management of the loan proceeds.</p> <p><b>Financial plan.</b> Disbursements to the executing agency will be made on the basis of a detailed financial plan based on the program's actual liquidity needs.</p> <p><b>Disbursement methods.</b> The Bank will disburse funds under the advance of funds modality or another modality recognized in the Financial Management Guidelines for IDB-financed Projects (document OP-273-12, as updated). Advances of funds will be made on the basis of a financial plan generated for up to six months ahead, when payments made are fulfilled and suitably documented. Other than the first advance of funds, advances may be processed upon substantiation of 65% of the total cumulative balance of advances. This percentage is due to an execution framework that involves sub-executing agencies and the fact that flows and processes of the executing agency's administrative and financial systems require long times for the management of payments, registration, and accounting closure.</p>
<input checked="" type="checkbox"/>	<p>Accounting, information systems, and reporting</p>	<p>The specific accounting standards to be followed are the IPSAS-CGR Chile established by CGR Resolution 16 of 2015.</p> <p>The executing agency uses SIGFE for budgeting, accounting, and payments. Transactional units will be opened in this system for operations with relevant international agencies. The chart of accounts is based on the public sector chart of accounts established by the CGR.</p> <p>As a complement to the policies and guidelines applicable to the operation, the program Operating Regulations will be used with documented definition of workflows and internal controls.</p>

<input checked="" type="checkbox"/>	Internal control and internal auditing	The internal control system is based on the organizational plan, strategic plans, and procedures approved by the CAIGG and administrative ethics and probity standards. The Internal Audit Unit reports directly to the highest authority of ChileCompra. Annual plans are developed in accordance with instructions established by the CAIGG. The Internal Audit Unit will follow up on the internal control observations made by the program's external auditors and will validate the responses to the auditors' observations.
<input checked="" type="checkbox"/>	External control and financial reports	Within 180 days after the close of each fiscal year the executing agency will submit to the Bank annual audited financial statements for the program. The audit will be carried out by an independent auditing entity acceptable to the Bank, including the Comptroller General of the Republic. The scope and other related aspects will be governed by document OP-273-12 (or the version in force at the time of execution). The final report will be delivered within 180 days of the date established for the final disbursement of the loan.
<input checked="" type="checkbox"/>	Financial supervision of the operation	The financial supervision plan will be based on the risk and fiduciary capacity assessments of the executing agency and will include field supervision visits and desk reviews, as well as analysis and monitoring of outcomes and recommendations from audits of the program's annual financial statements.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/24

Chile. Loan \_\_\_/OC-CH to the Republic of Chile. Program to  
Improve the Quality of Expenditure in Public Procurement

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Chile, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Program to Improve the Quality of Expenditure in Public Procurement. Such financing will be for an amount of up to US\$20,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_ \_\_\_\_\_ 2024)