



Board of Executive Directors
For consideration
On or after 21 September 2016

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Original: Spanish
Public
Simultaneous Disclosure

To: The Executive Directors
From: The Secretary
Subject: Chile. Proposal for a loan for the “Chile’s Integrity and Transparency Agenda Support Program II”

Basic Information: Loan type Programmatic Policy-Based Loan (PBP)
Borrower Republic of Chile
Amount up to US\$100,000,000
Source Ordinary Capital

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Remarks: This operation is the second loan in a programmatic series of two consecutive single-tranche operations, technically related to one another but independently financed as programmatic policy based loans, in accordance with document CS-3633-1, "Policy-based Loans: Guidelines for Preparation and Implementation. New version".

As established in document GN-1838-1, "Criteria and norms for Board and Management relations", dated 1 July 1994, policy-lending operations are considered by the Board of Executive Directors by Standard Procedure.

Reference: GN-1838-1(7/94), DR-398-17(1/15), GN-2200-13(4/05), GN-2849(3/16), CS-3633-1(6/14), CS-4138(8/16), PR-4368(11/15), DE-160/15

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CHILE

CHILE'S INTEGRITY AND TRANSPARENCY AGENDA SUPPORT PROGRAM II

(CH-L1111)

LOAN PROPOSAL

This document was prepared by the project team consisting of: María J. Jarquín (IFD/ICS), Project Team Leader; Carlos Cordovez (ICS/CCH), Alternate Project Team Leader; Juan Cruz Vieyra (IFD/ICS); Mariano Lafuente (IFD/ICS); Melissa Gonzalez (IFD/ICS); Juan Carlos Cortázar (ICS/CCH); Benjamin Roseth (IFD/ICS); Francisco Mejía (SPD/SDV); Sebastián Miller (CSC/CCH); Raúl Enrique Lozano (FMP/CPR); Francisco Lois (FMP/CCH); Viviana Maya (LEG/SGO); María I. Palomer (CSC/CCH); Fernando Grafe and Constantino Dockendorff (consultants).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

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| Annex II | Policy Matrix |

ELECTRONIC LINKS

REQUIRED

1. [Policy letter](#)
2. [Means of Verification Matrix](#)
3. [Results Matrix](#)

OPTIONAL

1. [Documents of operation CH-L1110 \(loan 3617/OC-CH\), including Policy Matrix in Annex II](#)
2. [Comparative Policy Matrix](#)
3. [Economic analysis of the program](#)
4. [Monitoring and Evaluation Plan](#)
5. [Nonreimbursable technical-cooperation document, Support Strengthening Institutional Capacity for Integrity and Transparency \(CH-T1166, ATN/AA-15550-CH\)](#)
6. [Main legislative milestones in public governance in Chile](#)
7. [References on the various effects of corruption](#)
8. [Safeguard policy filter \(SPF\) report](#)

ABBREVIATIONS

| | |
|-------------|--|
| CAIGG | Consejo de Auditoría Interna General de Gobierno [Government Internal Audit Council] |
| CGR | Comptroller General of the Republic |
| ChileCompra | Government Procurement Office |
| DNSC | National Civil Service Department |
| MINEDUC | Ministry of Education |
| MOP | Ministry of Public Works |
| OECD | Organization for Economic Cooperation and Development |
| PBL | Policy-based loan |
| UNDP | United Nations Development Programme |
| SADP | Sistema de Alta Dirección Pública [Public Sector Senior Management System] |
| SEGPRES | Ministerio Secretaría General de la Presidencia [General Secretariat of the Office of the President] |
| SEREMIS | Secretarías Regionales Ministeriales [Regional Ministerial Secretariats] |
| SERVEL | Servicio Electoral [Electoral Service] |

PROJECT SUMMARY

CHILE CHILE'S INTEGRITY AND TRANSPARENCY AGENDA SUPPORT PROGRAM II (CH-L1111)

| Financial Terms and Conditions | | | | |
|---|-----------------------------|-----------------------------|--|---|
| Borrower: Republic of Chile | | | Flexible Financing Facility^(a) | |
| | | | Amortization period: | 12 years / Single bullet payment |
| Executing agency: Ministry of Finance | | | Maximum original WAL: | 12 years ^(b) |
| | | | Disbursement period: | 1 year |
| Source | Amount (US\$) | % | Grace period: | 12 years |
| IDB (Ordinary Capital): | 100,000,000 | 100 | Inspection and supervision fee: | (c) |
| | | | Interest rate: | LIBOR-based |
| | | | Credit fee: | (c) |
| Total: | 100,000,000 | 100 | Approval currency: | United States dollars from the Bank's Ordinary Capital (OC) |
| Project at a Glance | | | | |
| Program objective/description: | | | | |
| <p>The main objective of this program is to support Chile's Integrity and Transparency Agenda, which calls for a series of policy measures to contribute to integrity and transparency in the operation of the public and private sectors and to promote similar conduct among the citizenry.</p> <p>This is the second of two consecutive operations that are technically linked but separately financed as programmatic policy-based loans.</p> | | | | |
| Special contractual conditions precedent to sole loan disbursement: | | | | |
| The release of the single tranche will be subject to fulfillment of the policy reform conditions described in the Policy Matrix (Annex II), the policy letter, and the conditions established in the loan contract (paragraph 3.3). | | | | |
| Exceptions to Bank policy: None | | | | |
| Strategic Alignment | | | | |
| Challenges^(d): | SI <input type="checkbox"/> | PI <input type="checkbox"/> | EI <input type="checkbox"/> | |
| Crosscutting themes^(e): | GD <input type="checkbox"/> | CC <input type="checkbox"/> | IC <input checked="" type="checkbox"/> | |

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

^(b) The original weighted average life (WAL) may be lower, depending on the effective date of the loan contract.

^(c) 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.

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

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

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Introduction.** This is the second and final operation in a programmatic series under the policy-based loan (PBL) modality. The objective of this program is to support Chile's Integrity and Transparency Agenda, which encompasses an ambitious set of policy measures aimed at contributing to integrity and transparency in the operation of the public and private sectors and promoting similar conduct among the citizenry. Under the first operation, in the amount of US\$130 million ([CH-L1110, 3716/OC-CH](#)), the program supported a series of legislative and administrative measures through two components that helped to: (i) strengthen the legal and institutional framework for integrity and transparency and the right of access to public information; and (ii) ensure integrity and transparency in the management of public resources, in the professionalization of public management, and in private-sector business activities, and promote ethical behavior among the citizenry. All of these measures were fulfilled, the loan was declared eligible on 18 May 2016, and the first and only tranche was disbursed on 19 May 2016. This second operation provides continuity to these actions by supporting the cumulative development of the institutional and regulatory measures undertaken in the framework of the first operation as well as a gradual and sustained expansion of the Integrity and Transparency Agenda.
- 1.2 **Recent macroeconomic performance.** In 2013, per capita income in Chile stood at US\$15,800, among the highest in Latin America. Annual growth from 2010 to 2013, following the global recession of 2009, averaged 5.3%, while unemployment declined to 5.9% in 2013, a historic low, and inflation remained near the 3% annual target, in a solid macroeconomic, political, and institutional context. Since 2014, against a less favorable international backdrop, economic activity slowed and GDP growth expanded by an average of 2% in 2014-2015. In 2016, the Chilean economy is expected to exhibit similar growth. This means that Chile is at a critical phase in its development, marked by economic slowdown and lack of sustained increases in competitiveness and productivity levels.¹
- 1.3 **General framework of the Integrity and Transparency Agenda.** From an institutional perspective, Chile has been a pioneer in the coordination of its public management modernization process, laying the groundwork for a solid democratic and institutional framework. The country's institutional capacity, which was already noted in the first operation, makes it possible to move forward in identifying and implementing the Integrity and Transparency Agenda measures, which are based on a broad, crosscutting political and social consensus.
- 1.4 Since the return of democracy, Chile has been resolutely pursuing sweeping reforms to strengthen the country's institutions in the framework of a stable rule of law. The most significant reforms were the following: (i) judicial reform making justice administration institutions independent and justice officials impartial; (ii) gradual incorporation of integrity and transparency principles into the public administration, developing the legal framework for integrity in public service, transparency and access to information, and punishment of corruption; and

¹ According to [studies by the Organization for Economic Cooperation and Development \(OECD\)](#), the growth of productivity factors in Chile has been declining over much of the past two decades.

- (iii) quick, mass access to information by the general public.² These initiatives largely account for Chile's high scores in various rankings measuring efficiency, effectiveness, and transparency in public management. Despite these strides, since 2014, a series of corruption cases came to light, primarily characterized by a pernicious relationship between money and politics. This has undermined public trust in the country's political and economic institutions and representatives and has highlighted institutional failures to regulate and prevent conflicts of interest.
- 1.5 In this context, in March 2015, the President of Chile created a presidential advisory council on conflicts of interest, influence-peddling, and corruption. The advisory council's proposals are to a large extent included in the Integrity and Transparency Agenda announced by the President on 24 April 2015. The council was made up of 15 members from various academic, political, and social sectors of the country. They worked for 45 days, consulting and discussing matters with various stakeholders in multiple forums³ to ensure that their proposals has "broad points of consensus."
- 1.6 As indicated above (paragraph 1.1), the Integrity and Transparency Agenda consists of a broad set of medium- and long-term measures intended to improve anti-corruption laws and make transparency a centerpiece of the relationship between politics and business. Another aim is to achieve stricter observance of the integrity and transparency principles defined by law to prevent irregular practices in interactions between the public and private sectors. It further seeks to promote conduct consistent with these principles among the general public. These measures help address and implement the various recommendations made by the advisory council, as well as those proposed by research centers, lawmakers, political parties, and civil society, also incorporating measures already included in the government program. The government's institutional capacity and quick response is consistent with the priority policy areas for strengthening governance and mitigating corruption risks recommended by the Organization for Economic Cooperation and Development (OECD),⁴ as a key component for the country's economic development, and by the literature.⁵
- 1.7 **Problems addressed by the program.** The identified integrity and transparency challenges to be addressed in the first operation continue to be valid for this operation. They include: (i) gaps in the legal and institutional framework for integrity and transparency; and (ii) need to strengthen integrity and transparency in the management of public resources and the professionalization of public management, as well as to promote similar conduct among the citizenry.

² Casas and Carter: "Corruption in Latin America: An analysis of the current context and prospects for its prevention and control" (2016).

³ To do so, (i) meetings were held with 10 government institutions, 12 political institutions or organizations, 12 international experts, and 51 civic organizations; (ii) 53 written proposals were received from various stakeholders, in addition to those received from more than 40,000 visits to the council's website, as well as more than 10,000 followers on its Twitter account; and (iii) eight public hearings were held in five cities (Coquimbo, Valparaiso, Temuco, Concepción, and Santiago).

⁴ See [OECD 2015 Integrity Forum Highlights](#).

⁵ Extensive empirical literature confirms the relationship between control of corruption and economic growth. See, among others: Mauro, P. (1995): "Corruption and Growth." *Quarterly Journal of Economics*, CX, 681–712; Zak, P. J., and S. Knack. "Trust and Growth (IRIS, University of Maryland, mimeo)" (1998); Wei, S-J. (2000): How Taxing is Corruption on International Investors? *Review of Economics and Statistics*, February 2000, 82(1): 1-11.

- 1.8 With the second operation, plans call for continuing support for measures to address the originally identified weaknesses while at the same time addressing three additional specific points that were not included in the program's original Policy Matrix, which are part of the two challenges mentioned in the preceding paragraph: (i) while Chile has been characterized by having an institutionalized and stable political party system that favors governance,⁶ political parties are currently weakened by limited capacity for oversight of their rules of operation and by low levels of public credibility and trust,⁷ which in turn is partly due to factors including insufficient transparency and access to information on their candidates, their assets, and their net worth, as well as on party financing;⁸ (ii) the legislation currently in effect regarding the treatment of personal information by public agencies or by private individuals (the Privacy Protection Law)⁹ is flawed in terms of the ownership of the personal data provided to third parties in compliance with other laws, the security of the data flow, and the oversight and sanctioning capacity needed to ensure regulatory compliance; and (iii) the country has performed well in terms of its internal audit function;¹⁰ however, it is considered important to institutionalize the assurance and advisory functions and activities that the Consejo de Auditoría Interna General de Gobierno [Governmental Internal Audit Council] (CAIGG)¹¹ has been performing for more than 20 years.
- 1.9 **Progress made.** The set of reforms promoted within the framework of this programmatic series represents a major contribution to the country's institutional development, particularly in the areas of the fight against corruption, the strengthening of control, and the oversight of elections for the prevention of conflicts of interest and the regulation of political financing, all of which has consolidated Chile's position as a regional benchmark in these areas. Little more than a year after announcing the Integrity and Transparency Agenda, the country has completed all of the policy actions agreed to in the framework of the first operation and continues to make solid progress on implementing the rest of the reforms planned since the outset of the program. Nonetheless, given the complexity of many of these reforms and the government's determination to

⁶ Presidential Message 498-363 dated 22 June 2015, initiating a draft Law on Strengthening the Public and Democratic Nature of Political Parties and Facilitating their Modernization.

⁷ A comparison of the Latinobarómetro results for 2010 and 2015 shows that the percentage of Chileans who reported having no confidence in political parties increased from 28.8% to 43.2% during this period.

⁸ Report of the Presidential Advisory Council on Conflicts of Interest, Influence-peddling, and Corruption (April 2015), pages 66-70.

⁹ Law 19,628 of August 1999.

¹⁰ The government's internal auditing function was assessed by the Bank in 2013 in the report Diagnóstico sobre Prácticas de Auditoría Interna Gubernamental [Diagnostic Assessment on Governmental Internal Audit Practices], yielding a high development level. Furthermore, according to the study Building Effective Governments (IDB, 2015), this function in Chile is consistent with international standards and covers 100% of the central government.

¹¹ CAIGG advises the President of Chile on internal audit, internal control, and administrative integrity matters. It was created in 1997 through a [supreme decree by the General Secretariat of the Office of the President](#). However, multiple studies highlight the lack of an internal institutional framework at the legal level and recommend addressing this shortcoming (Public Governance Reviews. Chile's Supreme Audit Institution. Enhancing Strategic Agility and Public Trust - OECD 2014; Práctica de Auditoría Interna Gubernamental 2013 [Governmental Internal Audit Practices 2013]; and Analysis and Evaluation of the National Public Procurement System 2008 – IDB). This is in line with best practices according to the OECD, as illustrated in the tendency in developed countries to use a model in which the responsibility for ex ante control falls on the organization itself (OECD, Performance Budgeting in OECD Countries. Paris, 2007).

develop them on the basis of solid consensus among a broad spectrum of stakeholders, in a number of cases, more time than was originally planned is needed.

- 1.10 **First operation.** The set of 12 legislative and administrative measures supported by the first operation¹² are part of the significant progress made on the Integrity and Transparency Agenda. They have been fully carried out by the Chilean government according to the evidence delivered to the Bank on 5 May 2016.
- 1.11 In terms of strengthening the legal and institutional framework for integrity and transparency, the Government of Chile moved forward in: (i) strengthening integrity in public management by enacting and publishing the Law on Integrity in Public Service and on Conflict of Interest Prevention (Law 20,880),¹³ and through draft legislation that prevents and punishes conflicts of interest and modifies the system of disqualifications and conflicts of interest for serving in public office;¹⁴ (ii) incorporating in national legislation the crime of corruption between private individuals while increasing the punishments associated with crimes of corruption and bribery of public officials through draft legislation that defines the crime of corruption between private individuals and amends certain provisions of the Criminal Code;¹⁵ and (iii) strengthening the Servicio Electoral [Electoral Service] (SERVEL), the institution responsible for administering electoral activities, by submitting to the National Congress a Presidential Message presenting a draft of the Law for the Strengthening and Transparency of Democracy. It should be noted that in this latter case, the country enacted and published the aforementioned law (Law 20,900)¹⁶ and is now moving forward with its implementation, with the Bank's support.¹⁷
- 1.12 With regard to ensuring integrity and transparency in the management of public resources and the professionalization of public management, as well as promoting similar conduct among the citizenry, the Government of Chile made strides in: (i) fine-tuning the Sistema de Alta Dirección Pública [Public Sector Senior Management System] (SADP) and strengthening the powers of the National Civil Service Department (DNSC) through draft legislation that fine-tunes the SADP and strengthens the DNSC;¹⁸ (ii) expanding the dissemination and transparency of invitations to compete and application and/or selection processes through a directive for mandatory use of the [Government Jobs](#) portal;¹⁹ (iii) defining standards of conduct for ethical and transparent conduct by public employees based on general guidelines for the preparation of codes of ethics issued by the Ministry of Finance;²⁰ (iv) strengthening integrity and transparency requirements in public

¹² See [Policy Matrix for 3617/OC-CH](#).

¹³ Published in the Official Gazette on 5 January 2016.

¹⁴ Presidential Message 499-363 dated 17 June 2015, sent to the National Congress on 18 June 2015.

¹⁵ Presidential Message 500-363 dated 17 June 2015, sent to the National Congress on 18 June 2015.

¹⁶ Law 20,900 was enacted on 11 April 2016 and published the following 14 April.

¹⁷ Using resources from operation CH-T1166, financing has been provided to enable, in SERVEL, electronic platforms for the collection of contributions for political parties and campaigns, and the filing of statements of candidates' assets and interests.

¹⁸ Presidential Message 557-363 dated 19 June 2015, sent to the National Congress on 1 July 2015.

¹⁹ Standard Official Notice 1,320 dated 15 May 2015 issued by the Ministry of Finance and sent to the Public Services of the State Civil Administration.

²⁰ Official Circular 03 dated 10 February 2016 issued by the Ministry of Finance and sent to the Public Services of the State Civil Administration.

procurement by reviewing and improving the rules and regulations governing public procurement;²¹ (v) strengthening the Ministry of Public Works (MOP) through draft legislation that creates a Concessions Office within the MOP, in order to mitigate risks of undue influence;²² (vi) creating a new institutional framework for supervision of the securities and insurance markets by sending a proposal to Congress to replace previously introduced legislation to create the Securities and Insurance Commission;²³ and (vii) establishing the requirement to prepare a civic education plan for all primary and secondary schools based on the Law Creating a Civic Education Plan for Schools Recognized by the State (Law 20,911).²⁴

- 1.13 As indicated above, this operation is structured as a programmatic policy-based loan, including two individual, sequential operations, which, according to Bank guidelines, allow for adjustments based on progress made, while maintaining the originally envisaged objectives. In this regard, a second operation was planned that would help provide continuity to the policy measures agreed to under the first operation through a series of indicative actions that would be included in the second operation subject to gradual progress on the reforms.
- 1.14 **Second operation.** As indicated in paragraph 1.9, several indicative policy actions that were originally identified for the second operation are requiring more time than was initially anticipated. In addition, and given the government's increased financial needs mentioned in paragraph 2.3, the government asked the Bank,²⁵ in April 2016, to move up preparation of this second operation for approval in September 2016, as part of a strategy to diversify financing sources. This was done in order to maintain a stable macroeconomic framework to cover part of the additional financing needs due to less favorable external economic conditions.²⁶ On that basis, and in line with the Bank's guidelines on support for these types of reforms that respond to events unfolding over time,²⁷ it was necessary to make adjustments to nine of the 12 original indicative policy actions and eliminate one. At the same time, in accordance with the diagnostic assessment in paragraph 1.8, the Policy Matrix for this second operation has been strengthened by incorporating three additional policy actions: (i) the obligation to provide access to information and transparency on the part of political parties, as well as regulating the public financing thereof; (ii) public and private personal data protection; and (iii) the

²¹ Supreme Decree 1,410 dated 9 September 2014 and published in the Official Gazette on 12 May 2015, modifying the Regulations Implementing Law 19,886, on Administrative Contracts for Supplies and Services.

²² Presidential Message 369-363 dated 12 June 2015, sent to the National Congress on 16 June 2015.

²³ Proposal 502-363 on the draft law creating the Securities and Insurance Commission, dated 12 June 2015 and sent to the National Congress on 25 June 2015.

²⁴ Presidential Message 312-363 dated 8 May 2015, initiating draft legislation to create a civic education plan for educational institutions recognized by the State, was sent to the National Congress on 12 May 2015. The law was enacted on 28 March 2016 and published in the Official Gazette on 2 April 2016.

²⁵ Aide-mémoire of the analysis mission signed on 28 April 2016.

²⁶ Concerned about meeting its structural balance target, the government filed an extraordinary request with the advisory committee on the benchmark price for copper to update its long-term price estimate in January 2016, with respect to the estimate made in August 2015. The committee lowered its estimate from US\$2.97/pound to US\$2.57/pound, and in line with this, in March, the government reduced the fiscal budget for 2016 by 1% in order to meet this target.

²⁷ Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-1).

strengthening of the institution responsible for advising the Office of the President on internal audits (see the Comparative Matrix).²⁸

- 1.15 **Legal and institutional framework for integrity and transparency.** The second operation called for the regulation of the law preventing and punishing conflicts of interest and modifying the system of disqualifications and conflicts of interest for serving in public office, once it was enacted and published. This is still being debated in the National Congress. While the legislative procedure moves forward, action 2.2 has been modified, by extending the essence of the original indicative action's objectives in terms of conflicts of interest and disqualifications to members of parliament (paragraph 1.36(b)).²⁹
- 1.16 **Ensuring integrity and transparency in the management of public resources and professionalization of public management, and promoting these principles among the citizenry.** For the second operation, three actions were to be carried out once the law to fine-tune the SADP and strengthen the DNSC was enacted and published. This law was approved by the National Congress in August 2016. While this process moves forward, actions 3.1, 3.2, and 3.3 have been amended, committing the government to enact and publish the above-mentioned law and begin implementation of the actions, in line with the objectives and scope of the law, but not requiring the regulatory change to move forward with staffing and the public sector senior management system (paragraph 1.38(a), (b), and (c)).
- 1.17 The second operation called for the preparation of codes of ethics for public services in accordance with the general guidelines issued by the Ministry of Finance. The DNSC is providing gradual support for the public services to meet this goal. Based on the progress with this process, action 3.4 has been amended, committing the government to complete approval of the codes of ethics for at least the General Secretariat of the Office of the President (SEGPRES) and the services under and/or related to the Ministry of Finance (paragraph 1.38(d)).
- 1.18 To strengthen integrity and transparency requirements in public procurement, the second operation called for draft legislation that would amend the current Law on Administrative Contracts for Supplies and Services (Law 19,886). The government has moved forward with the preparation of a draft that is expected to be sent to the National Congress during the current administration. While this takes place, action 3.5 has been amended, committing the government to the implementation of new provisions on integrity and transparency in public procurement in the area of competitive bidding processes (paragraph 1.38(e) and (f)).
- 1.19 In addition, the second operation called for the implementation of the Law Creating the Concessions Office for Public Works upon its enactment and publication. This is still being debated by the National Congress. As its legislative procedure moves forward, action 3.6 has been amended, replacing it with an action that will help advance compliance with the MOP integrity and transparency requirements with regard to the ministry's contractors, concessionaires, and providers (paragraph 1.38(g)).

²⁸ Measures 2.4, 2.5, and 3.9 in the Policy Matrix for the second operation. See Annex II.

²⁹ Efforts will be made to extend this requirement to members of parliament through the submission of a proposal by the Executive Branch to the National Congress.

- 1.20 The second operation also called for the implementation of the Law Creating the Securities and Insurance Commission upon its enactment and publication. This is currently being debated in the National Congress. While this legislation process moves forward, action 3.7 has been amended accordingly (paragraph 1.38(h)).
- 1.21 In the area of civic education, the second operation generally called for regulation of the Law Creating a Civic Education Plan for Schools Recognized by the State and its implementation in terms of teacher training and reinstating a mandatory civic education course in the third and fourth years of secondary school. The law was enacted and published in early 2016, including as a regulatory measure the issuance of guidelines for its implementation. Action 3.8 has been adjusted accordingly (paragraph 1.38(i)). The law also establishes that the process of instituting the above-mentioned mandatory course will be completed in 2019, and therefore, it has been excluded from this operation even though its design is moving forward.
- 1.22 At the same time, the eliminated measure, which was included as a policy action in the context of the second operation, consisted in sending to the National Congress a draft law on the new Criminal Code, which would incorporate the amendments made to the code since its enactment.³⁰ This action per se remains a part of the government agenda, but with a scope that exceeds the strict objective of the Integrity and Transparency Agenda,³¹ thus affecting the approval schedule, which will go beyond the originally envisaged timeframes. In effect, the draft legislation that defines and punishes the crime of corruption between private individuals, and also increases the punishments associated with crimes of corruption and bribery of public officials, amending the Code of Penal Procedure accordingly, supported by the first operation,³² is now in the Senate in its second stage of consideration on an urgent basis. It should also be noted that the National Congress is currently merging this bill with another that will also increase the punishment for the crimes of bribery, improper business dealings, and influence-peddling under the Criminal Code. The merger of these two initiatives reinforces the objectives of the Integrity and Transparency Agenda, but due to the breadth of the proposed amendments, the timetable for their approval is expected to exceed the projected timeframes of this operation.
- 1.23 **Rationale.** To address the challenges described in the first operation, the Government of Chile undertook a series of policy actions, and they have been carried out. In this context, since the Integrity and Transparency Agenda envisages a set of initiatives to be implemented over a lengthy period of time and bringing them to fruition requires achieving interim results and fostering a policy dialogue with various actors in the central and subnational governments, the legislative branch, and civil society, the Government of Chile remains committed to continuing to implement the Integrity and Transparency Agenda.
- 1.24 It is important to reiterate, as noted in paragraph 1.14, that regardless of the adjustments to the original indicative Policy Matrix, all of the legal reforms and administrative measures considered in the original matrix remain intact, along with the firm support of the various political and social sectors. Beyond this political

³⁰ Indicative action 2.3 in the Policy Matrix for [the first operation](#).

³¹ The draft new Criminal Code is a presidential initiative that has yet to be submitted to the National Congress. This new code is designed to systematize all changes in substantive criminal law in Chile.

³² Policy measure carried out under the first operation in the programmatic series (3617/OC-CH).

support, the measures contained in the first operation have been carried out in full, and all actions proposed for this second operation report significant progress. It is therefore expected that they will be completed over the course of the current administration in line with the 2014-2018 Government Program.³³

- 1.25 **The Bank's experience in the country and in the sector.** For over a decade, the Bank has supported and closely collaborated to strengthen public management in Chile. This has included support for several of the above-mentioned advances in transparency and access to information, which are being taken up again in the Integrity and Transparency Agenda for further strengthening and consolidation. Several of the policy measures set out in the Integrity and Transparency Agenda that are part of this operation are closely linked to the Bank's public resource management portfolio in the country, in specific areas such as civil service and procurement systems. The Bank's contribution to the reforms has also been built around its ongoing policy and technical dialogue with the country, including technical assistance, advisory services, and seminars on public ethics, integrity and transparency, open government, and improvements to the civil service. The financial assistance, technical assistance, and analytical work described in paragraphs 1.27 and 1.28 below are illustrative of this support.
- 1.26 The Bank has targeted its financial support towards strategic areas where it has added value through its knowledge and technical capacity. This support has taken the form of loans for judicial reforms to enhance the efficiency and quality of resource management within the judiciary (1666/OC-CH); to strengthen the institutional capacity of the judiciary in developing medium- and long-term judicial policies (2497/OC-CH); support for legislative efforts and citizen access to the work of legislators by strengthening the Library of the National Congress (1625/OC-CH); strengthening partnerships between the State and civil society (1291/OC-CH); external control to improve management systems of the Office of the Comptroller General (CGR), as well as its operational efficiency and effectiveness (1391/OC-CH); modernization and professionalization of civil service management (1622/OC-CH); legal defense through modernization of the management of the State Defense Council (2538/OC-CH, in execution); improvements in the effectiveness and efficiency of the public services (3298/OC-CH, in execution); and the Integrity and Transparency Agenda Support Program (3617/OC-CH).
- 1.27 Support has also been provided for this process as technical assistance and analysis through nonreimbursable technical cooperation operations for strengthening the CGR in the areas of information transparency and improved internal processes and systems to promote results-based management (ATN/FI-13873-CH and ATN/OC-11993-CH); support for the Council for Transparency (ATN/FG-12440-CH); shared and transparent use of information on reports and investigations for the fight against corruption (ATN/AA-12324-CH); strengthening transparency and management in the use of educational resources (ATN/AA-14685-CH); greater effectiveness and efficiency in the delivery of citizen services through improved governance functions (ATN/AA-14686-CH); performance evaluation of senior officials and civil servants (ATN/JF-11991-CH); and strengthening citizen services management (ATN/OC-15349-CH).
- 1.28 This operation incorporates lessons and good practices learned from the Bank's support in Chile and the region, specifically in the first operation of this

³³ As indicated in paragraph 2.6 and in line with the sustainability analysis contained in paragraph 2.8.

programmatic series, including the following: (i) medium- and long-term reforms such as those supported by the program should be implemented gradually given their complexity, and the political context should be taken into account given the need to modify the existing legislative and institutional framework; (ii) implementing these reforms requires strengthening the technical capacities and the legal mandate of the entities responsible for the reforms; and (iii) reforms of this type should be accompanied by technical assistance based on institutional capacity needs (see [ATN/AA-15550-CH](#)). The operation also recognizes the lessons learned by the Bank in the design of policy-based loans, including: (i) proper sequencing of the reforms should take into account the capacities of the institutions involved and define a logic for progressive implementation of reforms, combining legislative advances with improved technical capacities; (ii) to improve their effectiveness, the planned reforms should reflect the interests and capacities of the entities that are to implement them; and (iii) there should be adequate coordination between the various entities participating in the design of the reforms.

- 1.29 **Strategic alignment.** This operation is aligned with the crosscutting theme of institutional capacity and rule of law of the Update to the Institutional Strategy 2010-2020 (document AB-3008) by supporting the global innovation index (average for Latin America and the Caribbean). In addition, the program will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) through government agencies benefitted by projects that strengthen technological and managerial tools to improve public service delivery. This operation is furthermore aligned with the public management priority area of the Bank's Country Strategy with Chile 2014-2018 (document GN-2785) and the 2016 Operational Program Report (document GN-2849), specifically as it pertains to strengthening standards and practices of transparency and probity in public management (paragraph 3.12).

B. Objectives and components

- 1.30 The overall objective of the programmatic series and the second operation is to support the Integrity and Transparency Agenda, which calls for a set of policy measures to contribute to integrity and transparency in the operation of the public and private sectors and to promote similar conduct among the citizenry.
- 1.31 It is worth noting that this operation in the programmatic series is built on fulfillment of the indicative actions set out in the Policy Matrix for the first operation (3617/OC-CH). Thus, the second operation maintains the same three-component structure, as described below.
- 1.32 **Component I. Macroeconomic stability.** The objective of this component is to maintain a macroeconomic context consistent with the program objectives as indicated in the Policy Matrix (Annex II).
- 1.33 **Component II. Strengthen the legal and institutional framework for integrity and transparency.** The objective of this component is to strengthen the institutional and legal framework in line with the principles of administrative integrity³⁴ and transparency,³⁵ and the right of access to public information³⁶ as defined by law.

³⁴ Under Article 2 of Law 19,653, on Integrity, which adds Title III to Law 18,575, the principle of administrative integrity consists of "irreproachable official conduct, and an honest and loyal fulfillment of the functions or office, with the public interest preeminent over private interest."

- 1.34 The second operation consolidates the institutional and regulatory measures implemented in the framework of the first operation through the fulfillment of the following conditions:
- a. Implement Law 20,880 on Integrity in Public Service and Conflict of Interest Prevention by publishing it;
 - b. Send to the National Congress the presidential proposals on the parliamentary motion to amend the Basic Law on the National Congress and other laws regarding integrity and transparency. These proposals include: (i) further separate the parliamentary function from the exercise of lobbying activities; (ii) expand the observance of basic standards of integrity and transparency from representatives and senators to all those who provide services to any chamber of Congress or their common services; (iii) provide for publication of all requests for disqualification and the respective final decisions on the website of the relevant entity; and (iv) expand the criteria for disqualification from membership in the Office of Parliamentary Ethics and Transparency;
 - c. Implement the Law for the Strengthening and Transparency of Democracy: (i) setting limits on electoral spending for mayoral and city council candidates in the 2016 municipal elections; (ii) providing instructions for the submission, publication, and safekeeping of declarations of interest and assets by pre-nomination presidential candidates and general election candidates; and (iii) setting limits on electoral contributions per contributor for the 2016 municipal elections.
- 1.35 In addition, the second operation delves more deeply into the objective of this component, expanding the measures supported in the first operation. To this end, the following are proposed as policy actions:
- a. Equip the political parties with a regulatory framework that strengthens internal democracy and the duties of political parties to provide access to information and ensure transparency, by enacting and publishing the Law on Strengthening the Public and Democratic Nature of Political Parties and Facilitating their Modernization. This law will include the following provisions: (i) political parties will be organized as legal entities subject to public law; (ii) the mechanics of the internal elections periodically held by political parties will be supervised by SERVEL; and (iii) candidates from political parties and members of the governing body of every political party will be required to make their annual balance sheets and declarations of interest and assets permanently available to the general public;
 - b. Reinforce private data protection and the establishment of a better balance for public officials between greater transparency regarding their relationship to the State and the necessary protection of their privacy, by submitting a Presidential Message to the National Congress that initiates the approval

³⁵ Under Article 5.A of Law 19,653, on Integrity, the principle of transparency consists of permitting and promoting knowledge of the procedures, content, and grounds of decisions made; and under Article 4 of Law 20,285, on Government Transparency and Access to Government Information, it consists of respecting and determining the disclosure of government records, resolutions, procedures, and documents, as well as the grounds thereof, and of providing access to that information to anyone, by the means and procedures established by law for such purpose.

³⁶ As regulated by Law 20,285, on Government Transparency and Access to Government Information.

procedure for a draft law creating a new legislative framework on personal data protection and/or amending Law 19,628 on privacy protection.³⁷

- 1.36 **Component III. Contribute to integrity and transparency in the management of public resources and in activities to further professionalize public management, and promote ethical behavior among the various actors in society.** The objective of this component is to contribute to integrity and transparency in the management of public resources, in activities to further professionalize public management, and in private-sector business activities, while at the same time promoting similar conduct among the citizenry.
- 1.37 The second operation consolidates the institutional and regulatory actions carried out under the first operation by fulfilling the following conditions:
- a. Enactment and publication of the Law Improving the Public Sector Senior Management System (SADP) and Strengthening the National Civil Service Department (DNSC);
 - b. DNSC directive asking the Public Services of the State Civil Administration to deliver: (i) updated information as of 31 December 2015 on vacant staff positions;³⁸ (ii) information on their merit promotion and career ladder;³⁹ and (iii) a work plan for implementing competitive processes to fill vacant staff posts, establishing timeframes and transparency and equality criteria;
 - c. Launch of the new public sector senior management system and its portal in accordance with the standards of transparency established in the draft Law Improving the SADP and Strengthening the DNSC, with a view to increasing the dissemination and transparency of invitations to compete in the SADP selection processes;
 - d. Preparation and approval of the codes of ethics for SEGPRES, the Office of the Secretary and General Administration of the Ministry of Finance, and the public services under and/or subject to oversight by the Ministry of Finance;⁴⁰
 - e. Implementation of the new provisions on integrity and transparency in public procurement with regard to competitive bidding processes, ensuring that the evaluation committees prepare the final evaluation reports in accordance with the new integrity and transparency criteria established in article 40 bis of the regulations implementing Law 19,886, on Administrative Contracts for Supplies and Services, with a view to expanding the scope of the public procurement system to cover the entire procurement process;

³⁷ In accordance with [the standards that Chile undertook to comply with when it joined the OECD](#).

³⁸ “The civil service career begins with a staff position and extends to senior posts immediately below positions of trust or senior management posts.” As of 2003, the latter include up to department heads and equivalent senior leadership posts (known as tier-III senior posts). [Human resource management policies in the civil service](#).

³⁹ The notice will request that the Public Services report pending cases of staff promotions and the date on which they should have been processed.

⁴⁰ The codes of ethics will be prepared in accordance with the general guidelines issued by the Ministry of Finance, which, as indicated in paragraph 1.12 and footnote 21 of this document, are part of the policy measures supported by the Bank under the first operation in the programmatic series and which the Government of Chile has already carried out. For the program period, it is estimated that at least the 13 codes of ethics for these institutions will have been approved.

- f. Fulfillment of the necessary conditions for qualification⁴¹ in at least five public agencies, allowing them to publish competitive bidding terms with an advanced electronic signature⁴² in the www.mercadopublico.cl portal, thus making it possible to move forward on mandatory use of standardized electronic forms for bidding terms;
 - g. Signing and entry into force of a collaboration agreement between MOP and ChileCompra providing for implementation of a platform allowing online registration of MOP contractors and consultants in line with the MOP strategy of making its relations with contractors and providers more transparent;
 - h. Enactment and publication of the Law Creating the Securities and Insurance Commission;
 - i. Implementation of Law 20,911 Creating a Civic Education Plan for Educational Institutions Recognized by the State, published in the Official Gazette on 2 April 2016, through the: (a) issuance of guidelines by the Ministry of Education (MINEDUC) to the Regional Ministerial Secretariats (SEREMIS) on curricular issues and on formulating and implementing the civic education plans; and (b) signing of at least 11 collaboration agreements between MINEDUC and institutions of higher education to implement a teacher training program on civic education.
- 1.38 In addition, the second operation expands the objective of this component by supplementing the actions supported in the first operation with the following policy action: submission to the National Congress of the Presidential Message initiating the approval process for a draft law establishing the Government Internal Audit Office.

C. Key results indicators

- 1.39 To measure impact, the program will use the synthetic control indicators proposed for program evaluation ([Monitoring and Evaluation Plan](#)). To measure the results of the policy and reform actions included in the program, the [Results Matrix](#) will be used. These results will be monitored and evaluated by mutual agreement with the borrower.
- 1.40 The key outcomes are: (i) greater compliance by authorities and public officials with their obligation to make and update declarations of interest and assets; (ii) greater number of first- and second-tier senior posts are provided through the SADP; (iii) greater number of public services provide posts through the SADP; (iv) all awards are published in accordance with new integrity and transparency standards; (v) some public agencies begin to publish bidding terms and conditions with an advanced electronic signature in the www.mercadopublico.cl system; and (vi) primary and secondary schools recognized by the State have a civic education plan.
- 1.41 **Economic analysis.** An [economic analysis](#) was prepared for the program, premised on the fact that policy measures designed to strengthen integrity and

⁴¹ Qualified agencies are agencies that have received training from the Public Procurement Office (ChileCompra), and agencies in which the Heads of Service can provide a public electronic signature in the platform www.mercadopublico.cl.

⁴² Pursuant to Law 19,799 on electronic documents, electronic signatures, and certification services for such signatures.

transparency, such as those proposed by Chile, are key factors in preventing and controlling corruption in both the public and private spheres, and how this appears to be a decisive factor in strengthening efficiency in the use of public resources and in building public confidence in the country's leaders. Specifically, the study provides empirical evidence of the impacts of corruption on growth, and of the potential relationship between actions aimed at strengthening democracy, public procurement modernization and regulation, and civil service professionalization on one hand and control of corruption and associated benefits on the other.

- 1.42 This study indicates that increased corruption is associated with: (i) lower growth rates, due to political instability, a decline in private investment, and inefficiency at the enterprise level; and (ii) eroded legitimacy for democracies, due to an undermining of public trust in government regimes and a breakdown in interpersonal trust, as well as through a negative effect on electoral participation. At the same time, it has been shown that transparency in the form of publication of audit reports can limit the reelection of authorities that have engaged in unethical conduct. It has been shown that a range of solutions intimately related to the actions supported by the program are effective in controlling corruption and give rise to positive externalities, including the following: (i) reforms in professionalizing the civil service, particularly by strengthening meritocracy, can limit corruption, foster long-term economic growth, and help to reduce poverty; (ii) public procurement reforms, such as centralized management supported by electronic systems and audits, can lead to lower procurement cost overruns and better quality of procured goods and services; and (iii) civic education programs can strengthen the commitment to civic participation while also expanding and increasing the quality of citizen participation.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation is structured as a programmatic policy-based loan (PBL) that calls for two individual and consecutive operations, in accordance with Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-1)⁴³ and with the guidelines and instructions established in the New Lending Framework: Assessment Report and Recommendations (document GN-2200-13). The rationale for this programmatic modality is: (i) the need to provide the necessary timeframes for implementing complex reforms that require medium-term actions; (ii) the different timeframes for the implementation of each reform; (iii) the importance of evaluating progress and adjusting the reforms based on the knowledge gained; and (iv) the support and continuity of policy dialogue in the country.
- 2.2 This operation will be financed under the Flexible Financing Facility in U.S. dollars from the Bank's Ordinary Capital (OC). The programmatic policy-based loan modality was selected in response to the Chilean government's interest in obtaining support from the Bank to promote sector policy reforms and institutional changes in furtherance of the Integrity and Transparency Agenda in the short and medium term. The Chilean government's resolve to implement the reform agenda, the country's long history of implementing structural reforms, the consensus as to

⁴³ This instrument consists of a series of single tranche operations, each with its own loan contract.

the objectives of the Integrity and Transparency Agenda, and the process under way to prepare the proposal, including definition of the roles of the key parties concerned in the decision-making and policy implementation process, constitute a solid foundation for achieving the expected results.⁴⁴

- 2.3 The second loan is for US\$100 million from the Bank's Ordinary Capital, to be disbursed in a single tranche. This operation is justified in accordance with paragraph 3.27 of the above-mentioned document CS-3633-1. The operation will account for close to 1.0% of the public sector's gross financing needs for 2016 and 20% of financing from multilateral institutions, to be supplemented with up to US\$8 billion in bonds issued in the domestic market plus US\$2.650 billion in bonds issued in the international market in January 2016. These actual needs are in contrast to the estimated needs in the first operation, which totaled US\$8 billion, and are equivalent to an additional 25%. This partly explains why the Government of Chile needs to move forward with the two operations in 2016.

B. Environmental and social safeguard risks

- 2.4 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (document GN-2208-20 and Operational Policy OP-703), this operation does not require classification.

C. Fiduciary risks

- 2.5 The proposed financing instrument provides unrestricted funds for budget support provided there is a responsible fiscal policy framework in place. Therefore, there is no significant fiduciary risk because the executing agency has the necessary financial management tools and control systems.

D. Other risks

- 2.6 Looking ahead to the operation's disbursement period, the political context appears favorable to the program, and the high crosscutting political relevance of the operation contributes to the sustainability of the reforms implemented in the framework of the Integrity and Transparency Agenda. Consensus continues to exist among all stakeholders associated with the Integrity and Transparency Agenda as to the need for its implementation, and given the achievements attained in the framework of the first operation. As mentioned, integrity and transparency are at the heart of the Government Program for 2014-2018.

- 2.7 Notwithstanding the foregoing, as indicated in the first operation, the main risks identified in the framework of the program are associated with public management and governance, and relate to: (i) a change of government; (ii) resistance to this change on the part of the political system and other social organizations, the academic community, think tanks, and others; and (iii) delays in implementing legislative measures. While all of these risks have a low-medium likelihood of materializing, they could, in the event they do, affect the fulfillment of some of the measures and their implementation timetable and remain applicable to the second operation. The identified mitigation actions notably include conducting workshops

⁴⁴ Studies of the development effectiveness of financing indicate that reform programs may be effective when the country itself identifies with them and when these measures are designed to reflect the country's implementation capacity. In its 1999 evaluation, the Bank's Office of Evaluation and Oversight concluded "in general that if the government is committed to a reform program and if it can be carried out within the mandate of that government, sector loans can be highly effective in facilitating the reform process and supporting the countries' economic development."

and seminars, reporting on the measures and progress achieved in implementing them, and arranging visits to Chile by experts to support SEGPRES in its dialogue with third parties. Accordingly, in response to a request from the Government of Chile, the Bank approved a nonreimbursable technical-cooperation operation to support strengthening the government's institutional capacity in the area of integrity and transparency (CH-T1166, ATN/AA-15550-CH) in order to help: (i) implement some of the legislative and administrative measures approved in the framework of the Integrity and Transparency Agenda; (ii) identify the next steps for the Integrity and Transparency Agenda; and (iii) enhance the visibility, dissemination, and awareness of the Integrity and Transparency Agenda. For the latter, the technical cooperation operation will finance communication and dissemination activities at the national, regional, and local levels to highlight, raise awareness of, and report on progress made on the Integrity and Transparency Agenda. Representatives of civil society, including the academic community and think tanks, as well as political stakeholders from the National Congress and the political parties, among others, would participate in these activities and help mitigate the above-mentioned risks.

- 2.8 **Sustainability.** Implementation of the Integrity and Transparency Agenda is moving forward at the expected pace for medium- and long-term policy reforms. On one hand, all the measures included in the first operation's Policy Matrix have been implemented. On the other, significant progress has been made on all actions proposed in the Policy Matrix for the second operation, including the two draft laws that are being proposed for submission to the National Congress, and even those measures that were originally indicated for the second operation and have now been reported as delayed (see the Comparative Matrix) continue to be supported by the government. Since the Integrity and Transparency Agenda is the result of close participation and collaboration between the government, the National Congress, and various civil society stakeholders, it transcends the mandates of a specific administration. In addition, the government remains committed (see [Policy Letter](#)) to strengthening the legislative and institutional framework for effective compliance with legal and administrative aspects of the principles of ethics, integrity, and transparency with a view to achieving effective control of influence-peddling and preventing corruption and conflicts of interest in business, politics, and the civil service, and in the relations between these areas. Given the foregoing, it is believed that fulfillment of the program's reform objective will be achieved in the medium term as planned.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of Implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower is the Republic of Chile, and the executing agency is the Ministry of Finance of Chile. For the purposes of using Bank resources in this operation, the borrower will act through its Ministry of Finance's Budget Department (DIPRES).
- 3.2 The executing agency will have the following responsibilities, to be carried out based on information coordinated with SEGPRES: (i) provide evidence of fulfillment of the policy commitments, as well as any other program-related evidence needed by the Bank for approval of the respective disbursement; and (ii) once the program disbursement has been ensured, gather information for the performance indicators that will be used to evaluate the program results.

SEGPRES, as the ministry responsible for functions including interministerial coordination and implementation of the Integrity and Transparency Agenda, will coordinate with the Ministry of Finance and others responsible for the policy measures (MOP, ChileCompra, and MINEDUC) in fulfillment of the above-mentioned responsibilities.

- 3.3 Special contractual conditions precedent to the sole loan disbursement: The release of the single tranche will be subject to fulfillment of the policy reform conditions described in the Policy Matrix (Annex II) and the policy letter, and the conditions established in the loan contract.**

B. Summary of arrangements for monitoring results

- 3.4 **Monitoring.** A [monitoring and evaluation plan](#) was prepared to monitor and evaluate program results. The instruments comprising this plan are the following: (i) Policy Matrix; (ii) [Means of Verification Matrix](#); and (iii) [Results Matrix](#). These establish the key parameters for monitoring and evaluation of the program results. The Bank will monitor their implementation from the Country Office and the Institutional Capacity of State Division. The executing agency will have responsibility for monitoring the results of the operation, in coordination with SEGPRES, in order to keep the Bank duly informed.
- 3.5 **Evaluation.** As indicated in the [Monitoring and Evaluation Plan](#), program results will be measured on the basis of administrative data, results and qualitative evaluations, and specific studies that are available and accessible by the public. In addition to the regular measurements that are part of the monitoring plan, a program impact evaluation is planned by the Bank, using the synthetic controls methodology developed by Abadie and Gardeazabal (2003) to define Chile's hypothetical trajectory without the program, based on a series of proposed indicators: (i) corruption control indicator; (ii) government effectiveness indicator; (iii) voice and accountability indicator, which are three of the World Bank's worldwide governance indicators; (iv) transparency of government policy-making indicator; (v) ethical behavior of firms indicator; and (vi) government efficiency indicator, the last three of which are from the World Economic Forum's Global Competitiveness Index. The estimated impact of the program will be determined by the difference between the trajectory of the synthetic control indicators in Chile for 2015-2019 and the trajectory of the counterfactual indicators, the "constructed Chile." Since Chile has high standards in terms of all indicators to be used, the expected impact is that the country will succeed in maintaining, if not bettering, the indicator levels relative to the counterfactual. Given the nature of the interventions, which have relatively long maturity periods, the impact evaluation will be conducted no earlier than 2019.

IV. POLICY LETTER

- 4.1 The IDB has agreed with the Government of Chile on the policy commitments to be supported through this program. These commitments are reflected in the Policy Matrix (Annex II), the [Means of Verification Matrix](#), and the [Results Matrix](#). The policy letter reaffirms the government's commitment to all objectives and actions envisaged as part of the programmatic loan operation.

| Development Effectiveness Matrix | | | |
|---|--|--|---|
| Summary | | | |
| I. Strategic Alignment | | | |
| 1. IDB Strategic Development Objectives | | Aligned | |
| Development Challenges & Cross-cutting Themes | | -Institutional Capacity and the Rule of Law | |
| Regional Context Indicators | | -Government effectiveness (average LAC percentile) | |
| Country Development Results Indicators | | -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#) | |
| 2. Country Strategy Development Objectives | | Aligned | |
| Country Strategy Results Matrix | | GN-2785 | Strengthen public management to prepare the state for growing citizen demands. |
| Country Program Results Matrix | | GN-2849 | The intervention is included in the 2016 Operational Program. |
| Relevance of this project to country development challenges (if not aligned to country strategy or country program) | | | |
| II. Development Outcomes - Evaluability | | Evaluable | Weight |
| | | 8.7 | Maximum Score |
| | | 8.7 | 10 |
| 3. Evidence-based Assessment & Solution | | 9.4 | 33.33% |
| 3.1 Program Diagnosis | | 2.4 | |
| 3.2 Proposed Interventions or Solutions | | 4.0 | |
| 3.3 Results Matrix Quality | | 3.0 | |
| 4. Ex ante Economic Analysis | | 8.0 | 33.33% |
| 4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis | | 2.0 | |
| 4.2 Identified and Quantified Benefits | | 2.0 | |
| 4.3 Identified and Quantified Costs | | 2.0 | |
| 4.4 Reasonable Assumptions | | 2.0 | |
| 4.5 Sensitivity Analysis | | 0.0 | |
| 5. Monitoring and Evaluation | | 8.6 | 33.33% |
| 5.1 Monitoring Mechanisms | | 1.5 | |
| 5.2 Evaluation Plan | | 7.1 | |
| III. Risks & Mitigation Monitoring Matrix | | | |
| Overall risks rate = magnitude of risks*likelihood | | Medium | |
| Identified risks have been rated for magnitude and likelihood | | Yes | |
| Mitigation measures have been identified for major risks | | Yes | |
| Mitigation measures have indicators for tracking their implementation | | Yes | |
| Environmental & social risk classification | | B.13 | |
| IV. IDB's Role - Additionality | | | |
| The project relies on the use of country systems | | | |
| Fiduciary (VPC/FMP Criteria) | | | |
| Non-Fiduciary | | | |
| The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions: | | | |
| Gender Equality | | | |
| Labor | | Yes | A set of transparency policy measures related to public employment and the Senior Civil Service, will strengthen equity in access to public employment and merit systems in civil service. |
| Environment | | | |
| 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 | | Yes | The Bank provided support dor the sector through the following Technical Cooperations: ATN/FI-13873-CH, ATN/OC-11993-CH, ATN/FG-12440-CH); ATN/AA-12324-CH, ATN/AA-14685-CH), ATN/AA-14686-CH), ATN/JF-11991-CH, ATN/AA-15550-CH |
| The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan | | Yes | The Impact evaluation will permit the comparison of six transparency and government effectiveness indicators in Chile. For each indicator a synthethic control group will be defined, as per Abadie & Gardeazabal (2003). This will allow the construction of the indicator prior to the program and use this estimation to calculate the trajectory for Chile without the Program (counterfactual or Control). |

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

The Project is Evaluable

This is the second and last of a two operations in a programmatic series, whose main objective is to support the Chilean Probity and Transparency Agenda. The agenda includes a set of policy measures aimed at ensuring the observance of probity and transparency in the functioning of the public sector and the private sector, and promote these behaviors among citizens. By May 2016, a set of twelve policy measures, supported by the first operation had been fully implemented by the Government of Chile. Out of the twelve indicative measures originally planned for the second operation, eleven remain, three new ones were added, and one was removed.

The vertical logic in the Results Matrix is clear. The legislative measures included in the Policy Matrix (products) should lead to the increase in the number and proportion of public sector functionaries that submit declaration of interests and assets, to deepen the professionalization of the Senior Public Management, to reduce discretion in public procurement and introduce civic education in the school curriculum. This results set, should be reflected in the long term (impact) in the maintenance (or improvement) of synthetic control indicators in comparison with a group of countries selected using synthetic control methodologies for corruption and proposed for the economic analysis

The economic analysis updates the one presented in the first operation, which includes a detailed discussion of the technical literature and reviews the empirical evidence on the economic effects of corruption and on the importance of having a professional civil service. The package includes a complete monitoring and evaluation plan. The base line was updated and an impact evaluation is proposed using synthetic control methods.

POLICY MATRIX

| Objective | Policy actions carried out (Programmatic I) | Policy actions (Programmatic II) |
|---|--|--|
| Component I – Macroeconomic stability | | |
| 1. To maintain a macroeconomic environment conducive to fiscal sustainability. | 1.1. The borrower's macroeconomic context is consistent with the program objectives. | 1.1 The borrower's macroeconomic context is consistent with the program objectives. |
| Component II – Strengthen the legal and institutional framework for integrity and transparency | | |
| 2. To strengthen the legal and institutional framework in line with the principles of administrative integrity and transparency and the right of access to public information, as defined by law. | 2.1. Strengthen integrity in public management through the Law on Integrity in Public Service, which, inter alia, will expand and strengthen the system for declaring interests and assets. | 2.1 Implementation of Law 20,880 on Integrity in Public Service and Conflict of Interest Prevention. |
| | 2.2. Strengthening integrity in public management through draft legislation to prevent and punish conflicts of interest, which will modify the system of disqualifications and conflicts of interest for serving in public office. | 2.2 Submission to the National Congress of the presidential proposals on the parliamentary motion to modify the Basic Law on the National Congress and other laws regarding integrity and transparency. These proposals include: (i) further separating the parliamentary function from the exercise of lobbying activities; (ii) expanding the observance of basic standards of integrity and transparency from representatives and senators to all those who provide services to any chamber of Congress or their common services; (iii) providing for publication of all requests for disqualification and the respective final decisions on the website of the relevant entity; and (iv) expanding the criteria for disqualification from membership in the Office of Parliamentary Ethics and Transparency. |
| | 2.3. Incorporate in national legislation, for the first time, the crime of corruption between private individuals in draft legislation that defines and punishes the crime of corruption between private individuals, and also increases the punishments associated with crimes of corruption and bribery of public officials, amending the Criminal Code accordingly. | |
| | 2.4. Strengthen the institutions responsible for administering electoral activities, based on draft legislation for strengthening of and transparency | 2.3 Implementation of the Law for the Strengthening and Transparency of Democracy: (i) setting a limit on electoral spending for mayoral and city council candidates in the 2016 |

| Objective | Policy actions carried out (Programmatic I) | Policy actions (Programmatic II) |
|---|---|--|
| | <p>in democracy, which among other provisions would amend Law 18,556, the Basic Constitutional Law on the Electoral Registration System and Electoral Service to strengthen the administrative and oversight functions of the Electoral Service (SERVEL), such as, the functions of overseeing accountability, conducting and ordering audits of annual statements of public accounts, and obtaining access to charts of accounts and documents for oversight of the financial position of entities subject to oversight.</p> | <p>municipal elections; (ii) providing instructions for the submission, publication, and safekeeping of declarations of interest and assets by pre-nomination presidential candidates and general election candidates; and (iii) setting limits on electoral contributions per contributor for the 2016 municipal elections.</p> |
| | | <p>2.4 Enactment and publication of the Law on Strengthening the Public and Democratic Nature of Political Parties and Facilitating their Modernization. This law will include the following provisions: (i) political parties will be organized as legal entities subject to public law; (ii) the mechanics of the internal elections periodically held by political parties will be supervised by SERVEL; and (iii) candidates from political parties and members of the governing body of every political party will be required to make their annual balance sheets and declarations of interest and assets permanently available to the general public.</p> |
| | | <p>2.5 Submission to the National Congress of a Presidential Message initiating the approval procedure for a draft law creating a new legal framework on personal data protection and/or introducing amendments to Law 19,628 on privacy protection.</p> |
| <p>Component III – Contribute to integrity and transparency in the management of public resources and in activities to further professionalize public management, and promote ethical behavior among the various actors in society</p> | | |
| <p>3. To contribute to integrity and transparency in the management of public resources, in activities to further professionalize public management, and in private business, and to promote similar conduct among the citizenry.</p> | <p>3.1. Fine-tune the Public Sector Senior Management System (SADP) based on draft legislation that proposes measures such as: expanding the inclusion of new Public Services and positions, and the corresponding modalities; improving governance and strengthening the system's merit and professionalism guarantees; and effectively linking performance management for public sector senior management with the government's strategic objectives, and establishing objective</p> | <p>3.1 Enactment and publication of the Law Improving the Public Sector Senior Management System (SADP) and Strengthening the National Civil Service Department (DNSC).</p> |

| Objective | Policy actions carried out (Programmatic I) | Policy actions (Programmatic II) |
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| | terms for separation of employees. | |
| | 3.2. Strengthen the National Civil Service Department (DNSC), based on draft legislation that would grant it additional functions and powers authorizing it to issue directives to the Public Services on human resources management and development. | 3.2 (i) Enactment and publication of the Law Improving the Public Sector Senior Management System (SADP) and Strengthening the National Civil Service Department (DNSC); and (ii) DNSC directive asking the Public Services of the State Civil Administration to deliver: (a) updated information as of 31 December 2015 on vacant staff positions; (b) information on their merit promotion and career ladder; and (c) a work plan for implementing competitive processes to fill vacant staff positions, establishing timeframes and transparency and equality criteria. |
| | 3.3. Increase the dissemination and transparency of invitations to compete and application and/or selection processes through a standard official notice by the Ministry of Finance containing a directive for mandatory use of the DNSC Government Jobs portal for all types of employment contracts, promoting in turn equal access to them. | 3.3 Launch of the new public sector senior management system and its portal in accordance with the standards of transparency established in the draft Law Improving the Public Sector Senior Management System (SADP) and Strengthening the National Civil Service Department (DNSC), with a view to increasing the dissemination and transparency of invitations to compete in SADP selection processes. |
| | 3.4. Define standards of conduct for ethical and transparent fulfillment by public employees of their functions based on the general guidelines that the Ministry of Finance will issue through a standard official notice that will guide the preparation of codes of ethics at the different Public Services. | 3.4 Preparation and approval of the codes of ethics for SEGPRES, the Office of the Secretary and General Administration of the Ministry of Finance, and the public services under and/or subject to oversight by the Ministry of Finance. |
| | 3.5. Strengthen integrity and transparency requirements in public procurement by amending the Regulations Implementing Law 19,886, Law on Administrative Contracts for Supplies and Services, including by reviewing and improving aspects such as those related to public information under new transparency requirements, such as the publication of criteria and weightings assigned to evaluate bidders, the composition of the evaluation committee, and the | 3.5 (i) Implementation of the new provisions on integrity and transparency in public procurement with regard to competitive bidding processes, ensuring that the evaluation committees prepare the final evaluation reports in accordance with the new integrity and transparency criteria established in article 40 bis of the regulations implementing Law 19,886, on Administrative Contracts for Supplies and Services; and (ii) Fulfillment of the necessary conditions for qualification for at least five public agencies to publish competitive bidding terms with an advanced electronic signature ¹ in the |

¹ Pursuant to Law 19,799 on electronic documents, electronic signatures, and certification services for such signatures.

| Objective | Policy actions carried out (Programmatic I) | Policy actions (Programmatic II) |
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| | receipt and classification of bids. | www.mercadopublico.cl portal, thus making it possible to move forward on the mandatory use of standardized electronic forms for bidding terms. |
| | 3.6. Strengthen the Ministry of Public Works (MOP) as the institution responsible for enforcing the Law on Concessions, through draft legislation to create a Concessions Office within the MOP, in order to mitigate risks of undue influence. | 3.6 Signing and entry into force of a collaboration agreement between MOP and ChileCompra, providing for implementation of a platform allowing the online registration of MOP contractors and consultants in line with the MOP strategy of making its relations with contractors and providers more transparent. |
| | 3.7. Create a new institutional framework for the entity in charge of supervising the securities and insurance markets, transforming the existing Superintendency into a Commission, and introducing improvements to give it greater regulatory capacity, establishing plea bargaining systems and whistleblower protection programs, and extending the benefit of legal defense to all officials of regulatory agencies, by sending a proposal to Congress to replace previously introduced legislation to create the Securities and Insurance Commission. | 3.7 (i) Enactment and publication of the Law Creating the Securities and Insurance Commission. |
| | 3.8. Establish the requirement to prepare a civic education plan for all primary and secondary schools recognized by the State, promoting the formation of civic values, through the corresponding draft legislation. | 3.8 Implementation of Law 20,911 Creating a Civic Education Plan for Educational Institutions Recognized by the State, published in the Official Gazette on 2 April 2016, through the: (i) issuance of guidelines by the Ministry of Education (MINEDUC) to the Regional Ministerial Secretariats (SEREMIS) on curricular issues and on formulating and implementing the civic education plans; and (ii) signing of at least 11 collaboration agreements between MINEDUC and institutions of higher education to implement a teacher training program on civic education. |
| | | 3.9 Submission to the National Congress of the Presidential Message initiating the approval process for a draft law establishing the Government Internal Audit Office. |

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/16

Chile. Loan ___/OC-CH to the Republic of Chile
Chile's Integrity and Transparency Agenda
Support Program II

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 Chile's Integrity and Transparency Agenda Support Program II. Such financing will be for an amount of up to US\$100,000,000 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 ___ _____ 2016)

LEG/SGO/CSC/IDBDOCS: 40402175
Pipeline No.: CH-L1111