TRANSITION FINANCE COUNTRY STUDY OF CHILE: BETTER MANAGING GRADUATION FROM OFFICIAL DEVELOPMENT ASSISTANCE ELIGIBILITY

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Background

In the communiqué issued at its 2017 High Level Meeting, the Development Assistance Committee (DAC) set an objective for itself “to better understand the broad catalytic effect of official support and other resources by understanding the interlinkages among official development assistance (ODA), partner countries’ domestic resources, private investment, remittances, philanthropy, trade finance and export credits, and other sources of finance”, and to “continue to collaborate with other experts within the OECD and beyond in order to have a global overview and outlook on financing for development” (para 15).

Responding to this call, the OECD Development Co-operation Directorate (DCD) developed a new work stream on transition finance and set the scene with the publication of a working paper1 that outlines the analytical basis of this new framework. The methodological paper sets out an "ABC framework" for transition finance diagnostics, which involves: Assessing the transition context in the country; Benchmarking the substitution effects between public, private, domestic and international resources; and Counselling on how development partners can help phase out ODA and secure the progressive growth of other sources of finance.

The DCD has carried out five pilot studies on countries facing different transition challenges: Cabo Verde, Zambia, Uganda, Lebanon, and Viet Nam. This Chile pilot study explores the financial challenges faced by a country transitioning out of the DAC list of ODA recipients (i.e., moving from an upper middle-income country to a high-income country category). Chile’s experience described in the following pages can help other transitioning countries to manage their own “graduation” from the DAC list. This experience is also useful to develop recommendations to the DAC on how to better manage a smooth phasing out from ODA.

Abstract

The present country pilot, through the ABC framework developed under the OECD’s transition finance work stream, strives to shed light on Chile’s official development assistance graduation experience. Its main objective is to understand the challenges related to this graduation, analyse the measures (positive or otherwise) taken prior to this transition stage, and more generally learn from the Chilean experience to identify and react to the transition challenges faced by recent and future ODA graduates. The policy recommendations and conclusions proposed in this report aim to help development partners better approach graduation under similar conditions, i.e. in countries approaching graduation from ODA.

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Executive summary

Chile's continuous growth and democratic stability over recent decades lifted the country to high-income status in 2011, a year after it joined the OECD. Nonetheless, Chile continued to be eligible for official development assistance (ODA) until the end of 2017 when it met the conditions for its removal from the OECD Development Assistance Committee (DAC) List of ODA Recipients.

The experience of Chile is particularly interesting from a transition finance perspective. Most of the recent – and prospective – ODA graduates are either small island developing states (SIDS) or oil-exporting countries. Others include countries that benefited from the European Union enlargement and neighbourhood policy, and very few other countries that had a truly diversified economy allowing for further rapid growth such as Korea (a 2000 graduate). Chile benefited from the boom of trade and prices of copper, but also positioned itself as an open and increasingly diversified economy, including in the services sector.

This study shows that the financial impact of ODA graduation on Chile has not been very significant. The country had phased-out its reliance on ODA since the early 1970s. Over the period 2010-17, a few remaining projects amounting to USD 1.3 billion of commitments, mainly in the form of loans, supported the energy sector but also agriculture and transport. Nonetheless, technical co-operation with peer OECD countries has remained important, not least through triangular co-operation. New channels for co-operation, for instance through international forums and regional partnerships, will help respond to the country's important challenges. These remain in social (inequalities) and economic (diversification) areas[2]. Indeed, Chile has high inequalities that have recently inspired street protests throughout the country[3]. Among OECD members Chile ranks second in income inequalities[4], and even if the situation has improved in recent years – the gross national income growth in Chile that has led the country to ODA graduation has also been accompanied by decreases in inequalities – inequalities remain high and the pace of their reduction insufficient to respond to citizen's expectations.

A shift to new forms of co-operation, for example peer learning on fighting inequalities and joint programmes among OECD countries,[5] has a number of consequences on established institutional relations. This requires additional efforts on the part of Chile and its DAC counterparts to ensure past benefits of joint development efforts are not lost in transition (and that they are concretely considered before and after ODA graduation). At the same time, Chile could continue its engagement with DAC members, as a pivotal partner in triangular co-operation, sharing its experiences and lessons learnt from its recent development path, and benefitting from the triangular partnership itself.[6]

The present study follows the 'ABC' (Assessing, Benchmarking, and Counselling) methodology developed in Piemonte et al. (2019[1]) and highlights the following:

Assessing

Chile has transitioned to high-income status due to decades of strong macroeconomic performance. At the time of graduation, Chile was financially independent of ODA, and portfolio management strategies (loans for infrastructure projects) influenced donors' remaining presence in the country. Since Chile had access to alternative sources of finance that sometimes even offered better terms, losing eligibility to ODA did not create major funding gaps. The qualitative dimensions of co-operation with donors, however, were particularly valued. This suggests that sustaining knowledge exchange, technology transfer and peer-to-peer learning can benefit Chile, e.g. through triangular co-operation, with the OECD and beyond.

At the time of ODA graduation, Chile's financing mix revealed an absence of remittances, a below-trend reliance on official development finance (ODF), and consequently a higher share of foreign direct

investment (FDI). Domestic resources mobilised are low with a ratio of domestic to external finance of 3 to 1, substantially lower than what is observed in countries at a similar level of development.

This raises a number of questions with regard to the financing of a sustainable growth path for Chile when contrasting low domestic resource mobilisation with high inequalities, or high dependence on FDI (volatile and linked to commodity cycles) with productivity and diversification challenges. The financing mix suggests a potentially higher exposure to external economic shocks (such as trade and investment downturns, commodity price fluctuations) and an excessive reliance on private finance to remedy inequalities and improve basic services provision. The question becomes how to build resilience of past co-operation efforts to follow a virtuous growth path and not fall back into middle-income traps. Overall, this questions the role of the DAC in the preparation of graduation, with little efforts made to address this resilience issue (domestic resource mobilisation, reduction of inequalities, diversification of the economy and domestic value creation). The DAC should closely monitor the quality of partner countries' growth using additional/multidimensional indicators and develop tailored-made strategies that anticipate problematic situations that could become more apparent after graduation. These 'warning' signals or multi-dimensional indicators and how/when to apply them, and what they imply for DAC portfolio management strategies could be the subject of further work and recommendations. In line with development's multidimensionality, co-operation providers could usefully deploy, for example, special technical assistance funds and produce principles/recommendations on how to execute this kind of assistance.

Benchmarking

A comparison between Chile's development finance mix and its graduating peers confirms the country's singular situation. Countries previously graduating from ODA categorise among oil-exporting economies, small island developing states and benefiters from the EU enlargement. Concerning the latter group, Hungary and Poland – countries at similar levels of income per capita as Chile – received more ODA per capita prior to graduation than Chile, though overall ODA was small compared to other financing flows.

While a number of similarities exist with Uruguay's finance mix, Chile relies more heavily on private sector finance with higher FDI – raising the question of the quality of FDI in extractives (copper industry) and their development footprint – and lower other official flows. While Uruguay is also performing well below average on tax revenue mobilisation, Chile is even more reliant on external finance.

Korea, which graduated from ODA (2000) to become a DAC member (2010) in just a decade, could be an aspirational peer for Chile. In particular due to the strong private sector drive of R&D and improvement of education and skills in the country. A number of lessons could be drawn from the Korean experience (e.g. in terms of investment in education) to ensure a successful transition of Chile after graduation.

Counselling

The accession of Chile to high-income status and its graduation from ODA are the beginning of another transition phase that could be equally challenging: sustaining productivity, ensuring inclusive growth and reducing inequalities. Addressing those challenges requires new forms of financing and partnerships with peer OECD countries.

Social inequalities remain in spite of economic progress, with high disparities of wealth across socio-economic categories and regions. Improving equitable access to quality education or healthcare could be among the areas of further co-operation with peer OECD countries. Chile's low tax-to-GDP ratio also raises questions about sustainability of financing of basic services.

The end of the commodity super-cycle, low growth of productivity rates, remaining competition issues, and low innovation rates are among the challenges facing Chile to ensure inclusive growth. The diversification of the economy, trade and the attraction of FDI with improved development footprint – i.e. adding domestic

value – could be areas for further co-operation with peer OECD countries. With the People's Republic of China's role expected to increase, it is important to restore privileged economic relations between former development partners.

Box 1. Future DAC relationships with Chile and key lessons learned for ODA graduation

After graduation from ODA, DAC members could support Chile's transition through other means. A new multi-level partnership could be put in place to:

- Boost domestic resource mobilisation, e.g. through peer-learning on the development of sustainable investment markets and the use of pension funds for sustainable investment, tax policy co-operation and reform of public services (e.g. health);
- Share experiences through regional and international forums on financing global public goods and provide peer-to-peer technical assistance on key issues such as education or innovation;
- Build on trade and investment relations to improve standards, share technologies, and build domestic capacities;
- Develop new channels of communication and dialogue among governments, line ministries and agencies, and support Chile's role as a provider of development co-operation;
- Identify opportunities to channel resources through regional organisations and agreements to provide financial and technical support to Chile for its socio-economic challenges as well as successful contribution to the achievement of the Sustainable Development Goals (SDGs).

Key lessons for the DAC from Chile's ODA graduation experience:

1. <u>DAC members to better prepare ODA graduation together with partner countries:</u>

- Review and adjust DAC members' portfolios to build resilience of co-operation efforts and avoid socio-economic setbacks (e.g. on renewable energy, education and inequalities);
- Plan phasing-out and secure sustainable financing of priorities for inclusive growth (e.g. invest in domestic resource mobilisation to secure an adequate level of tax revenues, increase the quality of trade and investment to secure private finance that remains conducive to sustainable and inclusive growth, start implementing triangular co-operation activities with such pivotal countries);
- Use warning mechanisms and multidimensional indicators to monitor the 'quality' of growth and adjust DAC engagement and portfolio strategies in preparation for graduation.
- In line with development's multidimensionality, deploy special technical assistance funds and develop principles/recommendations on how to execute this kind of assistance.

2. <u>DAC to create a mechanism allowing continuous dialogue and peer-learning after graduation from ODA:</u>

- "Graduates Club" for monitoring of socio-economic progress after graduation, tracking non-ODA flows, discussing experiences and advising recent/future graduates, developing new relations with DAC donors beyond ODA, assisting access to other types of finance and technical assistance, capacity building in becoming a donor;

3. <u>DAC to develop new channels for sharing expertise and technology, and peer-to-peer learning, including:</u>

- Better use of multilateral (including global funds) and regional financing and support mechanisms (including deep trade agreements) to sustain inclusive growth;
- Identification of new institutional partners for preserving budgetary allocations in favour of jointly identified priorities (e.g. climate change);
- Reform of former channels of co-operation to harness new tasks, such as triangular co-operation.

1 Assessing

Chile's graduation from the status of developing country is largely attributed to a solid macroeconomic environment: strong institutions and economic stability in a participative democracy.
This chapter assesses the factors that have led to Chile's graduation from ODA and outlines lessons learned to guide DAC members in better managing and preparing future ODA graduations in other countries. Indeed, the main message that emerges from this assessment is that neither DAC members nor Chile adequately addressed or planned the graduation from ODA. In terms of co-operation, a strong case for technical assistance in Chile remains – rather than for financial resources. And yet, rather than a strategic phasing out of ODA in favour of technical co-operation, ODA-like financing continues to flow to the country, masking Chile's real needs.

1.1 Chile's transition to high-income country status

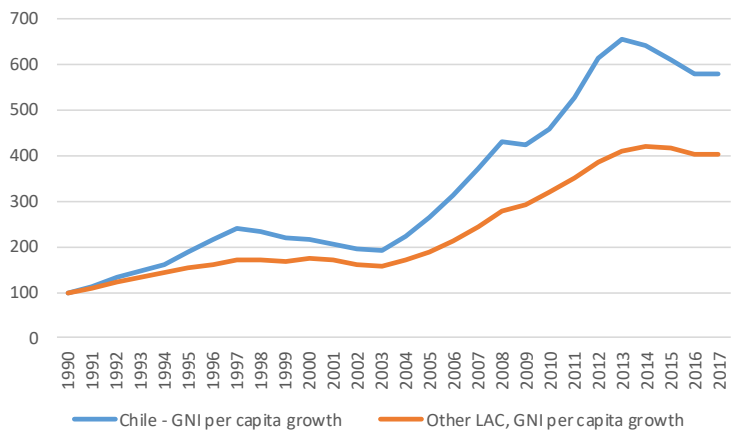
1.1.1 The road to high-income country status

For decades, Chile has experienced sustained economic growth allowing for its graduation to high-income status in 2012 and admission to the OECD in 2010.

Stable and solid macroeconomic performance has powered Chile's journey to the income level of a developed country. Nearly three decades of democratic rule have helped the country sustain its gains. Far outperforming its regional neighbours, Chile's GNI per capita has multiplied by six over the past 27 years (Figure 1.1) and the country is now categorised as high-income country (HIC).[7]

Figure 1.1. Chile's GNI per capita increased by a factor of six over the past 27 years, greatly outperforming its neighbours

1990=100, GNI per capita levels, constant prices, Atlas method



Source: Author's calculations based on World Bank's GNI per capita data, Atlas method (World Bank, 2019[2]).

Although Chile had exceeded the high-income country threshold in 2011, it remained on the list of ODA recipients until the end of 2017. The DAC graduation rules stipulate that a country is removed from its list of ODA recipients when it exceeds the high-income threshold (as measured by GNI per capita) for three consecutive years at the time of the committee's review, which itself takes place every three years. Chile has met this criteria at the DAC review in 2017, when the country was notified about its removal from this list beginning 2018 – meaning that it was only able to benefit from new ODA-like commitments until the end of 2017.[8]

Notwithstanding the positive development of reaching high-income status, concerns have been raised within Chile over losing its eligibility to receive ODA. Since the country continues to face challenges to achieve the Sustainable Development Goals (SDGs), which are not necessarily captured by increases in income per capita, the Ministry of Foreign Affairs and the development agency expressed a continued importance and need of ODA to Chile.

The present country pilot, through the ABC framework developed under the OECD's transition finance work stream, strives to shed light on Chile's ODA graduation experience. The objectives of this study are as follows:

- Understand Chile's challenges related to graduating from ODA;

- Analyse the measures taken prior to this transition stage;
- Learn more generally from the Chilean experience to identify and react to transition challenges faced by recent and future ODA graduates[9].

Most of the policy recommendations and conclusions proposed in this report are of equal relevance to upper middle-income countries in similar conditions, i.e. those approaching graduation from ODA.

1.1.2 The sound macroeconomics of Chile

Chile's economic success has relied on solid macroeconomic fundamentals and political stability

The evolution of the Chilean economy has been widely analysed in the literature including through detailed reviews from the OECD (see for example (OECD, 2018[3]) and (OECD, 2015[4]). The following section gives a general overview of the Chilean economy and introduces the focus of this study, namely transition finance issues when approaching ODA graduation.

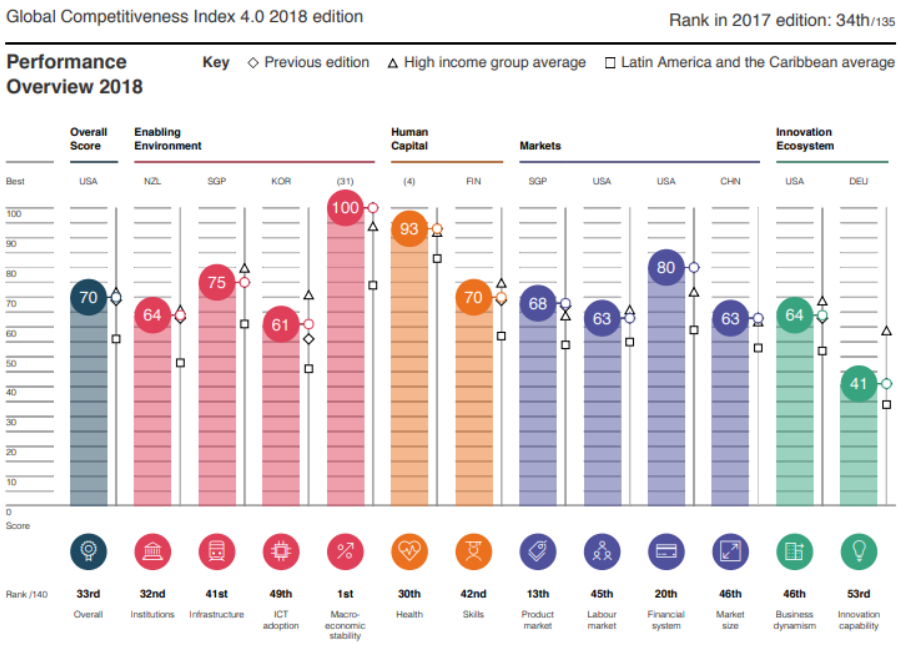
Governance, institutions and competitiveness

The stable and solid macroeconomic environment in Chile creates a business-friendly, pro-investment climate. Fiscal austerity and discipline, in addition to prudent monetary policy and a well-respected central bank, were essential in recent decades to inspire confidence among economic agents, establishing ideal conditions to facilitate rapid growth. In the 2000-18 period, Chile's median rate of inflation stood at 2.82%[10]; in the same period, the fiscal balance (incomes less expenditures as a percentage of GNI) shows a median of -0.45% of GNI[11] and its balance of payments a (positive) median value of USD 324 million[12].

Chile ranks among the top 20 economics for attracting foreign direct investment (FDI). Sustained by its solid macroeconomic performance, and despite its relatively small market size of 18 million inhabitants, Chile figures among the world's top 20 economies for attracting FDI[13]. In this sense, strong institutions – or trust in society through clear regulation, transparency, efficiency, security, and enforcement of property rights – facilitate economic actors' and citizens' formation of measurable expectations and thereby promote long-term investment.

Chile benefits not only from stable macroeconomic conditions but also from relatively well-developed infrastructure and trade openness. The World Economic Forum (World Economic Forum, 2018[5]) ranks Chile 33rd among 140 countries in its competitiveness index. Stable macroeconomic conditions (ranking 1st with a score of 100) and a relatively well-developed infrastructure (75.2, ranking 41st) help explain this performance. Chile is indeed among the top performers on the 'Product market pillar' (68.2, 13th), primarily as a result of lower prevalence of non-tariff barriers and relatively low measures of tariff complexity[14] (see Figure 1.2).

Figure 1.2. Chile's Global Competitiveness Index

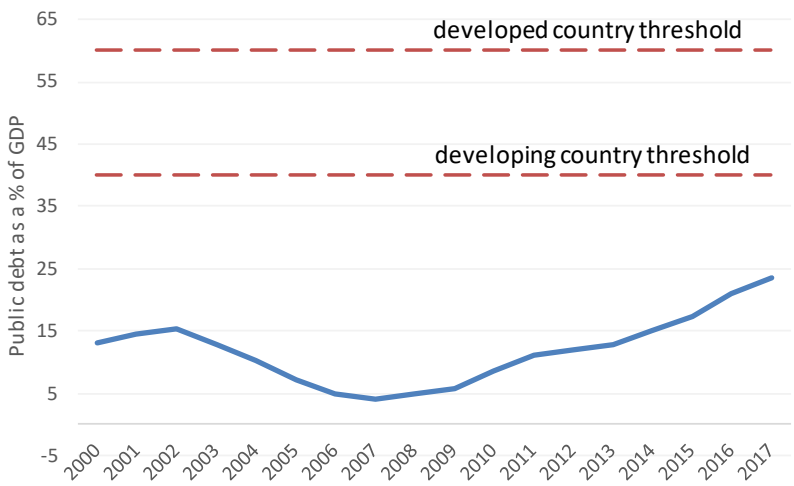


Source: (World Economic Forum, 2018[5]), Global Competitiveness Index Report 2018 http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf.

Prudent levels of public indebtedness

The country's level of public debt is at reasonable levels, even if it has shown a growing trend in recent years[15]. At 23.6% of gross domestic product (GDP), public debt is much lower than what is normally 'recommended' by the IMF (60% of GDP as a general benchmark for developed countries and 40% for developing economies)[16]. It is worth mentioning, however, that even if the debt level remains more than prudent for a country in transition, its unusual rising trend in recent years (see Figure 1.3) has caused a downgrading of the external debt classification in 2017-18 by the major international risk rating agencies[17].

Figure 1.3. Public debt is growing but remains by far lower than benchmark levels



Source: Authors' calculations based on (Ministerio de Hacienda, Chile, 2019[6]) https://www.hacienda.cl/oficina-de-la-deuda-publica/colocaciones-bcch-soma/evolucion-de-la-deuda.html.

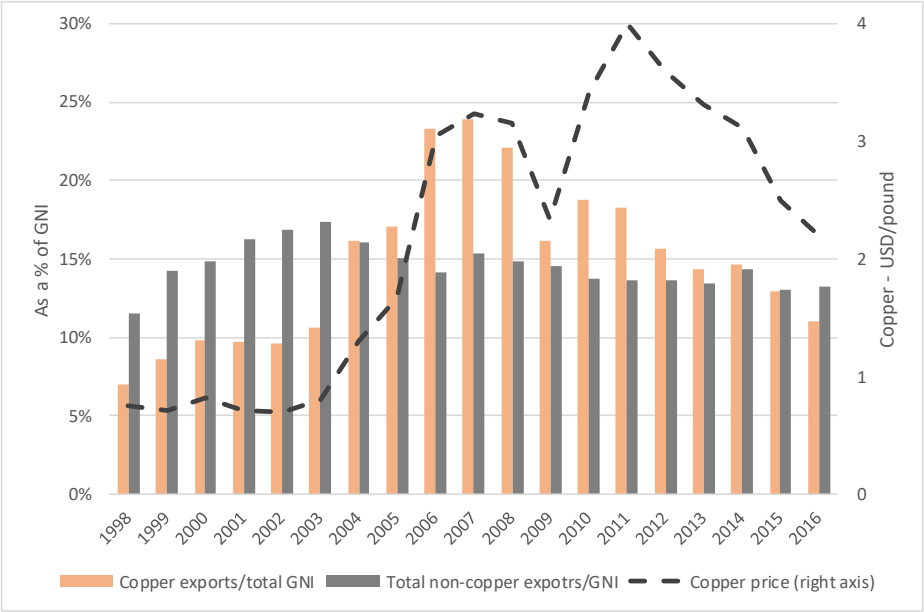
1.1.2 A modern economy

Chile's exports are predominantly in the mining sector. However, the Chilean economy has become increasingly diversified and is now turned towards services

The predominance of copper

Chile is the largest producer of copper in the world, accounting for one-third of the world's copper supply. With total copper exports currently approaching one-tenth of the country's gross national income, Chile is vulnerable to volatility in copper exports. As was the case in 2006-07, copper price fluctuations can more than double the share of copper exports in GNI: just prior to the global financial crisis, copper prices reached a peak and Chilean copper exports represented almost 23% of its GNI (Figure 1.4).

Figure 1.4. Copper exports represent around 10% of Chilean GNI

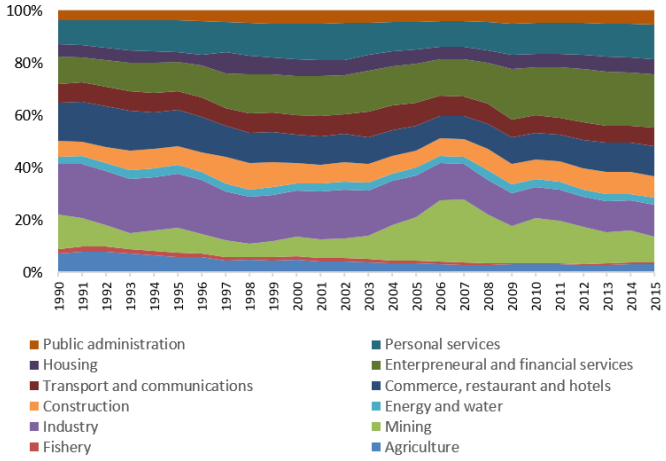


Source: Author's calculations based on Corporación Chilena del Cobre's data (Cochilco, 2019[7]) https://www.cochilco.cl/Paginas/Estadisticas/Bases%20de%20Datos/Precio-de-los-Metales.aspx and World Bank's database (World Bank, 2019[2]).https://data.worldbank.org/indicator/NY.GNP.PCAP.KD.

Towards a service economy

Despite the importance of mining, Chile is best defined as a service economy. As shown in Figure 1.5, mining is not the principal motor of the economy when examining the sectoral composition of GNI. Indeed, examining the period 2000-17, the entrepreneurial and financial services sector became the leading sector of the economy, reaching 20% of GNI (15% in 2000), overcoming the industry sector that was the largest sector in 2000 (19% of GNI in 2000 and declining to 12% in 2017). For its part, mining represented 9% of GNI in 2017 compared to 8% in 2000. All other sectors of the economy, with the exception of a relatively declining trend in the agriculture sector (from 6% of GNI to 4%), have expanded at regular paces.

Figure 1.5. GNI by factor composition in Chile, 2000-17



	2000	2017	main trend
Agriculture	6%	4%	↘
Mining	8%	9%	↗
Industry	19%	12%	↘
Energy, gas, water	3%	3%	—
Construction	8%	8%	—
Commerce, rests & hotels	12%	12%	—
Transport & communications	8%	7%	↘
Entrepreneurial & financial serv.	15%	20%	↗
Housing services	6%	6%	—
Personal services	14%	14%	—
Public administration	5%	5%	—
GNI at factors' costs	100%	100%	

Source: Author's calculations based on (Banco Central de Chile, 2019[8]), PIB por clase de actividad económica 1.2 Chile's transition finance mix

1.2.1 Overview of transition finance in Chile

Chile's graduation to high-income status has been followed by its graduation from the DAC List of ODA-eligible Countries. This graduation, however, only marginally affected Chile's transition finance mix that had been stable for decades with three main characteristics: a low dependence on public external finance, a high reliance on private external finance, and limited domestic resources mobilised and remittances.

From high-income status to ODA graduation

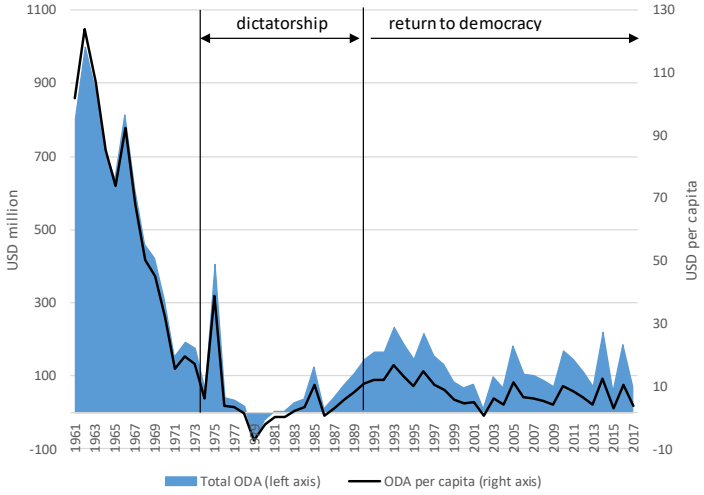
ODA flows to Chile were relatively low from the early 1970s until its ODA graduation in 2017. Historically, ODA flows were significant in the 1960s with amounts over USD 100 per capita at a time when the country had a GNI per capita of approximately USD 600.[18] Subsequently, however, ODA flows decreased in the beginning of the 1970s and almost disappeared during the dictatorship (1973-1989). They picked up again just after the return of democracy, reaching USD 30 per capita in the beginning of the 1990s (or 1.3% of GNI)[19]. At that time, most of the ODA flows were directed to agriculture and transport.[20]

Most recently, ODA by inhabitant amounted to USD 3.9 in 2017, equivalent to 0.03% of the GNI per capita.

At least in quantitative terms, ODA to Chile has not been essential to ensure the impressive growth achieved over the last three decades.

Figure 1.6. ODA flows to Chile have been relatively low from the 1970s onwards

ODA disbursements, 2016 prices.



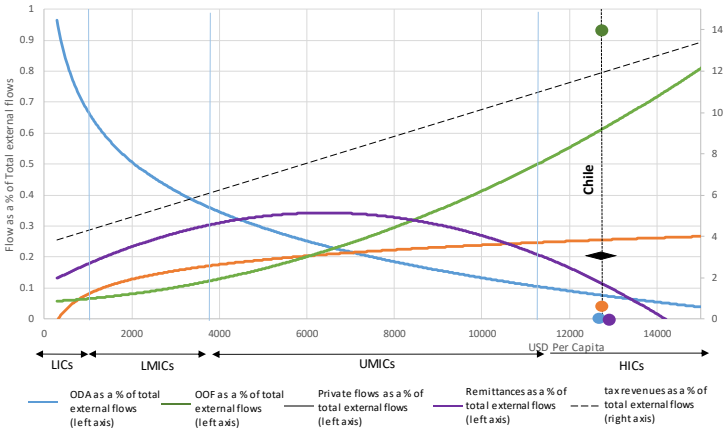
Source: Author's calculations based on (OECD, 2019[9]), Creditor Reporting System database https://stats.oecd.org/Index.aspx?DataSetCode=CRS1

The big picture of transition finance in Chile

External transition finance to Chile in recent decades has been composed almost exclusively of private inflows (FDI), followed by a regular and stable level of non-concessional flows of public origin, mostly in the form of loans classified as other official flows (OOF) from multilateral agencies (Figure 1.7). ODA and remittances have been almost absent from this external equation.

Figure 1.7. Chile's external financing and tax revenues, relative to all developing countries

DAC, non-DAC OECD members and multilateral agencies' outflows, 2012-16 net disbursements, 2016 prices

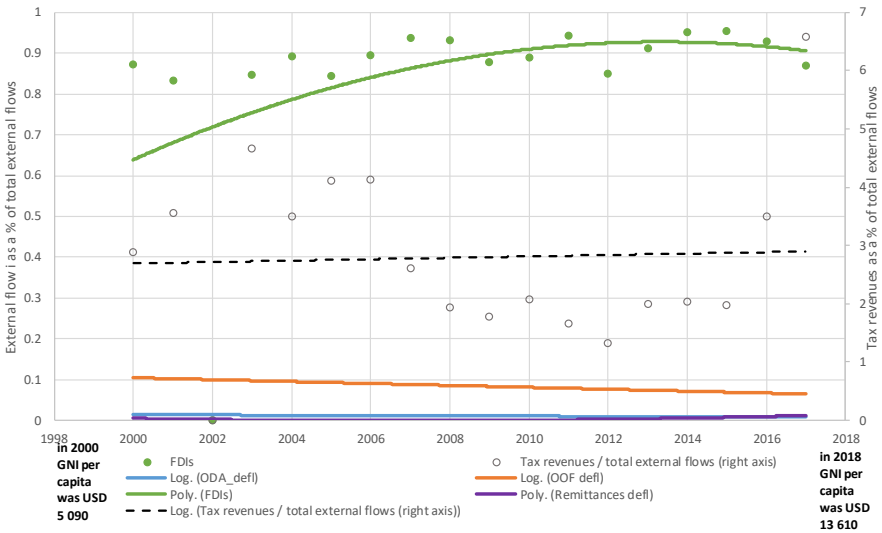


Note: Coloured dots correspond to the Chilean situation and should be compared with the respective coloured lines (averages for all ODA recipient developing countries).
Source: (OECD, 2019[9]) Creditor Reporting System database for ODA and OOF flows https://stats.oecd.org/Index.aspx?DataSetCode=CRS1; (OECD, 2019[10]) OECD/DAC database for private flows https://stats.oecd.org/Index.aspx?DataSetCode=REF_TOTALRECPTS; (World Bank, 2019[2]) , World Bank database for remittances https://data.worldbank.org/indicator/NY.GNP.PCAP.KD; UNWIDER Government Revenue dataset (UNWIDER, 2019[11]) for tax revenues https://www.wider.unu.edu/project/government-revenue-dataset.

The dominance of FDI in Chile confirms the small weight of ODA in the country's transition finance mix. When analysing transition finance beyond ODA – that is, including other external inflows to Chile such as other official flows, private flows, and remittances – and comparing the share of each flow in the overall financing mix (Figure 1.8), it is interesting to note[21]:

- An almost inexistent level of ODA flows relative to all external flows;
- The omnipresence of private flows as an external source of financing over nearly two decades;
- The near total absence of remittances; and
- The regular and flat presence of official non-concessional flows (OOF), representing on average 10% of all external flows in the period.

Figure 1.8. Chile's main source of external financing is FDIs



Note: This chart – in which Chile grew from a GNI per capita of USD 5 090 in 2000 to USD 13 610 in 2018 can be read similarly to the general overview see in 'Transition Finance: introducing a new concept' (Piemonte et al., 2019[1]).
Source: Author's calculations based on (OECD, 2019[9]) Creditor Reporting System database https://stats.oecd.org/Index.aspx?DataSetCode=CRS1and (Banco Central de Chile, 2019[12]) Central Bank of Chile's FDIs and DRM information https://si3.bcentral.cl/estadisticas/Principal1/informes/AnuarioBDP/index_anuario_BPD_2017.htm?chapterIdx=-1&curSubCat=-1.

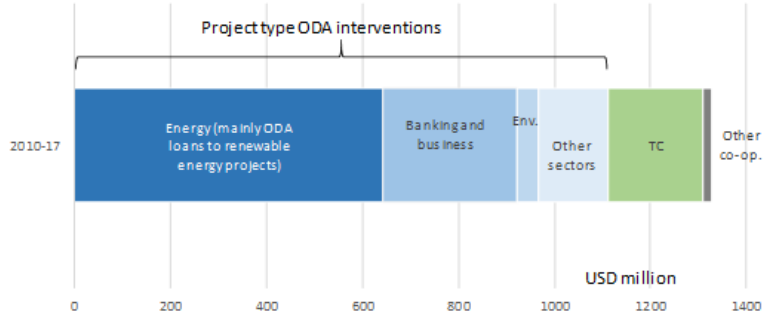
1.2.1 A low dependence on public external finance

Chile's ODA flows before graduation (2010-17) mainly consisted of few but significant concessional loans, primarily targeting renewable energy projects. Within the registered credits over this period also figures a loan for financing small and medium enterprises (SMEs), and multiple small grants dedicated to technical co-operation (Figure 1.9).

Between 2010 and 2017, four donors alone accounted for 80% of ODA received by Chile. Chile's main ODA donors in 2010-17 were Germany (45% of the total), the EU institutions (18%), the Climate Investment Funds (13%) and France (4%). Another 42 donors including multilateral agencies were active in the period, but with very low levels of assistance.

Figure 1.9. ODA to Chile in 2010-17 mainly focused on renewable energy projects and technical co-operation

USD million commitments in sector allocable aid[22], 2016 prices

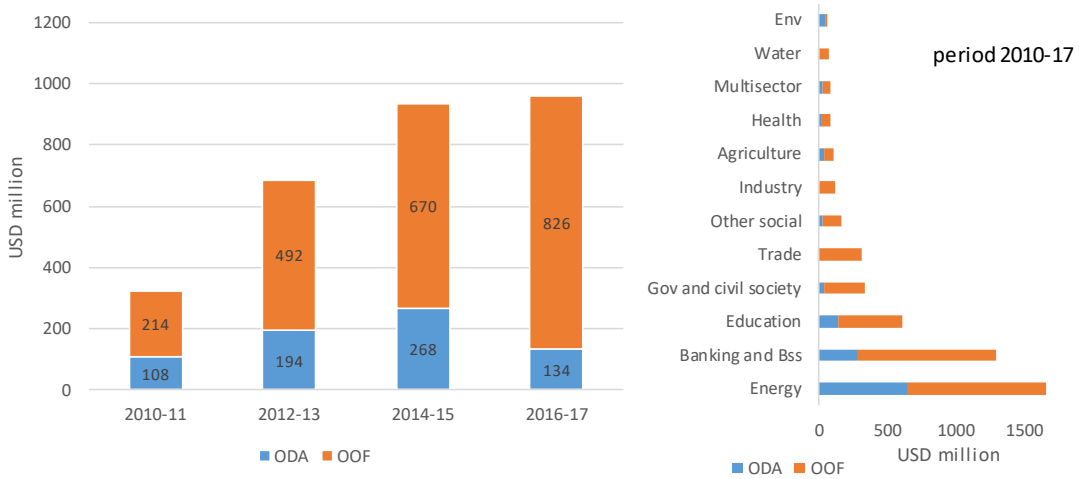


Source: Author's calculations based on (OECD, 2019[9]), Creditor Reporting System (database), https://stats.oecd.org/Index.aspx?DataSetCode=CRS1.

Similar to ODA, energy along with banking and business were the sectors receiving the largest portion of official non-concessional flows. Chiles total receipts in official development finance – that is, the sum of ODA and OOF – reached USD 2.9 billion in the period 2010-17 (in sector allocable terms). The two sectors 'energy' and 'banking and business' alone accounted for almost 60% of total ODF (Figure 1.10, right hand side chart)[23].

Figure 1.10. Total official development finance to Chile prior to ODA graduation mainly consisted of non-concessional flows (left figure) to the energy and financial sectors (right figure)

Period 2010-17, USD commitments, sector allocable aid, 2016 prices.



Source: Author's calculations based on (OECD, 2019[9]), Creditor Reporting System (database), https://stats.oecd.org/Index.aspx?DataSetCode=CRS1.

Even while Chile still received official development finance, it could competitively finance investment projects at market terms. The concentration of ODA and OOF in the same two sectors suggests the confirmation of the hypothesis of an absence of a real need of ODA loans to finance investment projects in Chile (see Box 1.1).This seems to hold at least for private-profitable sectors such

as energy along with banking and business[24]. Also, in spite of Chile's ODA graduation, OOF are likely to continue flowing to the country since the IDB, its main issuer of OOF, has no formal threshold for discontinuing OOF. Alternatively, purely private debt or direct investments could gradually replace OOF without a major impact on the national economy.

Box 1.1. Concessional flows to investment projects

In order to analyse the nature of the main projects financed by ODA flows in the years before Chile's graduation, Table 1.1 identifies the main loans committed to Chile in the period 2010-17. They correspond to loans from KFW (German development bank) and the EIB (European Investment Bank). The six projects outlined in the table below represent USD 705 million or 53% of the total commitments to Chile in the period 2010-17 (total ODA commitments amounted to USD 1 331 million).

Table 1.1. Main ODA transactions to Chile in 2010-17

Commitments, current prices.

Project number	Commitment	Beneficiary	Creditor	Objective
83762	Loan Euro 150 million	Negotiated through Santander Chile	EIB	Wind energy
202083319	Loan USD 159.8 million	(Bank) Not communicated	KFW	Solar Energy
202084093	Loan USD 146.8 million	Banco del Estado	KFW	Energy efficiency
202081958	Loan USD 144.5 million	Banco del Estado	KFW	SMEs
26100	Loan Euro 55.3 million	Not communicated	EIB	Hydro-electric power plant
202081941	Loan USD 46.5 million	(Bank) Not communicated	KFW	Energy efficiency

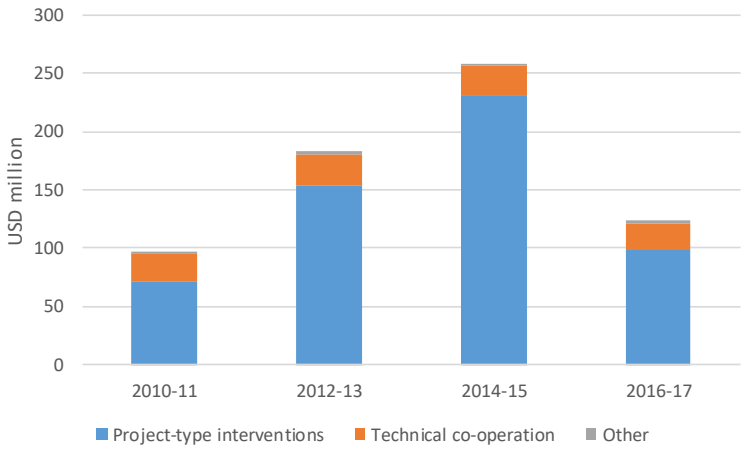
Source: Author's calculations based on (OECD, 2019[9]), Creditor Reporting System (database), https://stats.oecd.org/Index.aspx?DataSetCode=CRS1.

While KFW's loan extended to Banco del Estado was said to be important for providing credit lines to SMEs, the loan from the EIB to Banco Santander Chile was cancelled due to better financial conditions offered by a private creditor. The latter case raises questions on the indispensability of ODA loans to Chile, a notion supported by other interviewees during a fact-finding mission to Chile.

Technical co-operation to Chile, even if low in monetary terms, is perceived to be of high importance and demand for the assistance continues.[25] Projects purely considered technical co-operation represented around USD 25 million on average per year in 2010-17 and were financed exclusively through grants.[26] Figure 1.11 shows that 15% of this technical co-operation was in the form of scholarships for Chileans to obtain specialised studies abroad, whereas 26% financed donor country personnel, and the remaining 58% accounted for other technical assistance (mainly financing for feasibility studies and subsidies to the German and French schools abroad).[27]

Figure 1.11. Chile received USD 25 million on average per year in purely technical co-operation interventions

USD million commitments, 2016 prices.



Source: Author's calculations based on (OECD, 2019[9]), Creditor Reporting System (database), https://stats.oecd.org/Index.aspx?DataSetCode=CRS1.

National authorities and the donor community appear to have neglected to plan for a phasing-out of this kind of assistance and a transition to new forms of co-operation. In the case of the DAC, it seems to have left the country rather abruptly without a formal strategy, especially regarding the provision of technical co-operation. However, some DAC members have made efforts individually. The Japan–Chile Partnership Programme confirms Japanese engagement with the Chilean Agency for International Development Cooperation (AGCID) even after Chile's graduation.[28] Through its "Fondo mixto de cooperación triangular Chile–España", Spain also continues to co-operate with Chile as pivotal partner post-graduation (see Box 1.2). Similarly, the German Regional Fund for Triangular Co-operation in Latin America and the Caribbean, based in Santiago de Chile, regularly co-operates with Chile in the individual projects of the Fund. Both Funds are working in co-financing models with Chile and at times the beneficiary countries, so that ODA provided by DAC members is leveraged with contributions from the LAC region. The US-Chile Trilateral Development Cooperation initiative promotes projects focussing on areas such as citizen security, social inclusion, improving agricultural standards, and export promotion.

Box 1.2. Chile–Spain Fund, a success story of triangular co-operation that does not end with Chile's graduation

The "Fondo mixto de cooperación triangular Chile–España" was established in 2010 and began operations in 2011. In its first phase the fund had a budget of USD 1.2 million, of which 70% came from Spanish contributions and the remaining 30% from Chilean contributions. During first phase (2010/11 to 2014), the fund financed four projects in the LAC region. In the current second phase (2016-2020), it has a budget of Euros 1.2 million (financed 50% each) and has financed four other projects in the region. (Table 1.2).

Table 1.2. Projects funded by "Fondo mixto Chile–España" since its creation

Year	Project	Beneficiary	Total funds, USD	of which Chilean funds	of which Spanish funds
2010	Strengthening the "Secretaría de Formación Pública"	Paraguay	457 372	137 211.6	320 160.4
2013	Strengthening the capacities of the blood services net	Bolivia	317 270	95 181	222 089
2014	Strengthening the CDEMA: earthquake and tsunami prevention and reaction	CARICOM members	368 548	110 564.4	257 983.6
2014	Territorial management development training	Paraguay	45 360	13 608	31 752
2017	Strengthening the institutional prevention, treatment and rehabilitation of drug consumption	El Salvador	165 000	82 500	82 500
2018	Territorial ordering training and regional development	Dominican Republic	198 493	99 246.5	99 246.5
2019	Support for an effective use of recyclers in the South cone	Argentina, Brazil, Chile, Uruguay	159 984	79 992	79 992
2019	Strengthening safe coexistence in the San Francisco neighborhood	Paraguay	174 664	87 332	87 332

Source: Author's design based on (Agcid Chile and Cooperación Española, 2019[13]), Fondo mixto de cooperación triangular Chile-España, Síntesis de los primeros 10 años de trabajo conjunto, https://issuu.com/agci/docs/brochure_fondo_chile-espan_a

The Spanish development co-operation agency with Chile informed that Spain will continue to support this joint fund, even after Chile's graduation. In order to be counted as ODA, the funds will be disbursed directly to the third-party beneficiary countries in the future, instead of being disbursed to the Chilean authorities for their administration, as was done in the past.

Through the OECD community, Chile can address soft dimensions of development co-operation with peers. Chile became a full OECD member in 2010 and, as such, can benefit from the Organisation's many fora and peer learning opportunities. Surprisingly, it seems that Chilean ministries and political authorities (apart from the traditional intermediaries situated in the Ministry of Finance) do not systematically turn to the OECD as a peer interlocutor to share ideas and discuss policy reforms. It would be of mutual benefit (to Chile and its fellow OECD members) to reinvigorate an active and regular exchange of information and experiences. This point was in particular expressed by the health community in interviews during the mission carried out for the purposes of the present study.

Notwithstanding the DAC's obligation to ensure a soft phasing out from ODA, it is a shared responsibility with the graduating countries. Technical co-operation issues should be better budgeted by the Ministries themselves and with high levels of income per-capita, more resources could be mobilised domestically. For instance, trainings and participation in international conferences that were previously financed through ODA grants should be budgeted by the different ministries in Chile.

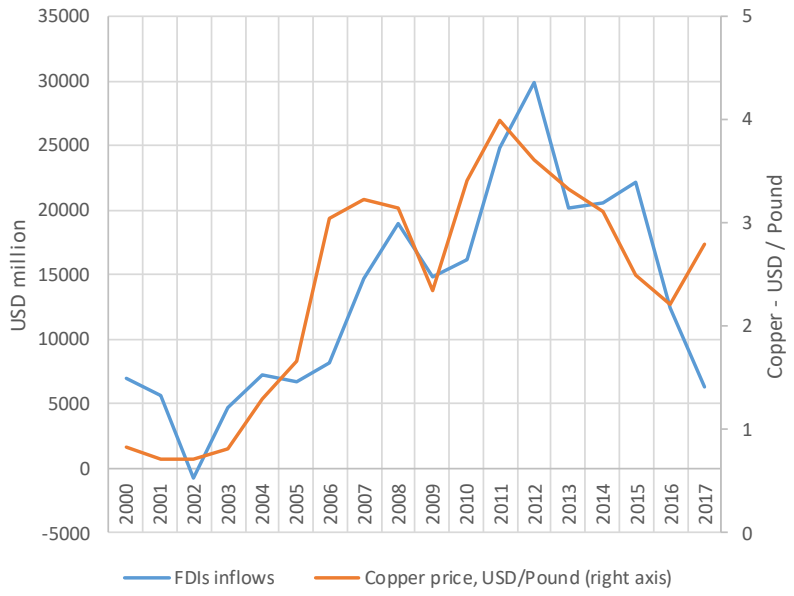
1.2.2 A high reliance on private external finance

Chile receives large amounts of foreign direct investments (FDI) which are mainly targeted to the mining sector (copper). Despite its relatively small market size of 18 million inhabitants, Chile ranks among the world's top economies for attracting foreign direct investments (FDIs).[29] This is mainly due to its world-leading position as copper producer (accounting for one-third of the world's copper supply), its macroeconomic stability, and its business-friendly environment (Chile ranked 56th out of 190 economies in the World Bank's Ease of Doing Business Indicator[30]).

Foreign direct investments, however, are highly responsive to the price of copper. Figure 1.12 shows how closely FDIs to Chile mirror the price in copper, exposing foreign investments in Chile to the development of global copper prices. More so, the decline of FDI to Chile in recent years follows a global trend of decreasing FDI flows which dropped by 30% in 2015-16 (OECD, 2018[14]), 23% in 2017 (see (UNCTAD, 2018[15])) and 13% in 2018 (UNCTAD 2019).

If this trend of globally decreasing FDI persists, Chile should look to other financing sources or mechanisms to leverage funds and secure its growth, while at the same time fighting inequalities. This could happen in the form of higher-quality FDIs, mobilising higher levels of domestic resources, and/or incentivising and guiding private savings (e.g., pension fund investments[31]) to be invested in sustainable impact projects, in line with the SDGs.

Figure 1.12. FDI inflows to Chile



Source: (Banco Central de Chile, 2019[12]), Central Bank of Chile's FDIs information, https://si3.bcentral.cl/estadisticas/Principal1/informes/AnuarioBDP/index_anuario_BPD_2017.htm?chapterIdx=-1&curSubCat=-1.

1.2.3 Limited domestic resources mobilised and remittances

Domestic resources in Chile have not been mobilised as quickly as in other countries at similar level of development.[32] Currently, the level of Chilean tax revenues as a percentage of total external flows equals 3.2 in 2013-17, where overall trends show that other countries have an average ratio of 11 at a similar level of development. (See Figure 1.14.) In addition[33], DRM to GDP was 20.5% in 2015 for Chile, while 34% on average for OECD countries – and 32.4% and 39% respectively for Poland and Hungary, countries with similar levels of GNI (OECD, 2015[16]). However, even if not yet sufficient, it has to be highlighted that Chile recently implemented tax reforms, and the first results were shown in 2017 where tax revenues over total external flows increased to 6.6 in 2017, from an average of 2.4 in 2012-16.

Remittances are almost absent in the Chilean case. Over the period 2013-17, remittances amounted to only USD 16 million on average per year.[34] In consequence, they will not be a subject of further study in this report. Instead, the next section will assess Chile's performance in attracting external finance against selected peers and will analyse the experience of an additional country, Korea, from which Chile could draw inspiration looking forward.

2 Benchmarking

Chile differs structurally from previous ODA graduates, which could tentatively be classified as oil-exporting economies, small island developing states (SIDS) and countries in the European neighbourhood.

Chile, Hungary and Poland, former ODA graduates at similar levels of income per capita, perform similarly in achieving the SDGs, nevertheless, because of wider affinity with other potential benchmarking cases, the Chilean case is more in depth analysed against the cases of Uruguay and Korea.

This Chapter also suggests that in order to ensure smooth sustainable development pathways in late UMIC stages, the DAC should pay particular attention to:

(i) Quality FDI: DAC members should invest significantly in standardising an internationally recognised impact evaluation method to track and secure sustainable and SDG-compatible investments.

(ii) Helping developing countries secure appropriate levels of tax revenues; Better understand and incorporate inequality variables in co-operation programmes earlier in the planning stage; and

(iii) Support a solid educational sector in order to enable these economies to invest in sustainable, modern and fairer economies.

2.1. Benchmarking Chile against other ODA graduates

2.1.1. Chile's special position among ODA graduates

Chile's case of ODA graduation is distinct from the countries that previously graduated from ODA who were either resource-rich, small island developing states or within the European neighbourhood

While recent ODA graduates are a heterogeneous group of countries, they can be categorised into three main categories: resource-rich (oil producing) countries, SIDS, and countries in the European neighbourhood. Hence, identifying peers for Chile's benchmarking poses a challenge: very few countries are outside those categories. Where can Chile be categorised among other ODA graduates?

A classification of ODA graduates

Three major groups of graduated countries emerge from the set of countries that had been removed from the DAC list of ODA recipients:

- Resource-rich (oil-producing) countries: Brunei, Kuwait, Qatar, United Arab Emirates (graduating in 1996), Bahrain (2005), Saudi Arabia (2008) and Oman (2011);
- Small island developing states: Bahamas (1996), Bermuda and Cayman Islands (1997), Aruba (2000), Turks and Caicos Islands (2008), Barbados and Trinidad and Tobago (2011), Anguilla and Saint Kitts and Nevis (2014) and Seychelles (2018);
- Countries in the European vicinity: Bulgaria, Czech Republic, Cyprus[35], Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Republic and Slovenia.

Benchmarking Chile

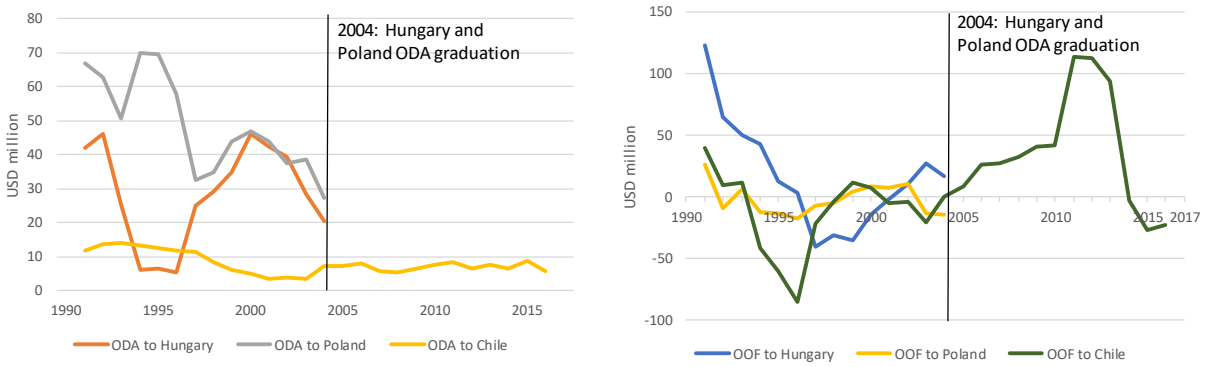
Chile has a more diversified economy making it difficult to compare the graduation experience to other resource-rich ODA graduates. Chile, as highlighted before, can be categorised as a rich resource endowment economy (copper). Nevertheless, as shown in Section 1.1.3 above, it is also a diversified economy with copper representing only 10% of its GNI. This differs from other resource rich ODA countries where resources, mostly in the form of oil extraction, account for substantially larger shares of economic activity.

Among previous ODA graduates, Hungary and Poland currently share similar levels of income per capita as Chile. Hungary and Poland, who both graduated from ODA in 2005[36], have similar levels of GNI per capita (USD 14 590 and USD 14 150) compared to Chile (USD 14 670) in 2018. Population size in the three countries varies from 38 million in the case of Poland, 18 million for Chile and 10 million for Hungary.

In financial terms, Hungary and Poland received more ODA than Chile at similar levels of development. At the time of their graduation, Hungary and Poland had a GNI per capita of USD 8 730 and USD 6 260 respectively and received ODA around USD 30 and USD 40 per capita and year. Chile, in contrast, received around USD 4 at similar level of development until its graduation from ODA (Figure 2.1 left)[37]. Non-concessional flows, instead, show a more similar pattern among the three countries negative flows mainly because of loan reimbursement (Figure 2.1 right).[38]

Figure 2.1. ODA to Hungary and Poland was higher than ODA for Chile at a similar level of GNI per capita

ODF commitments, 3-year moving average, 2017 prices

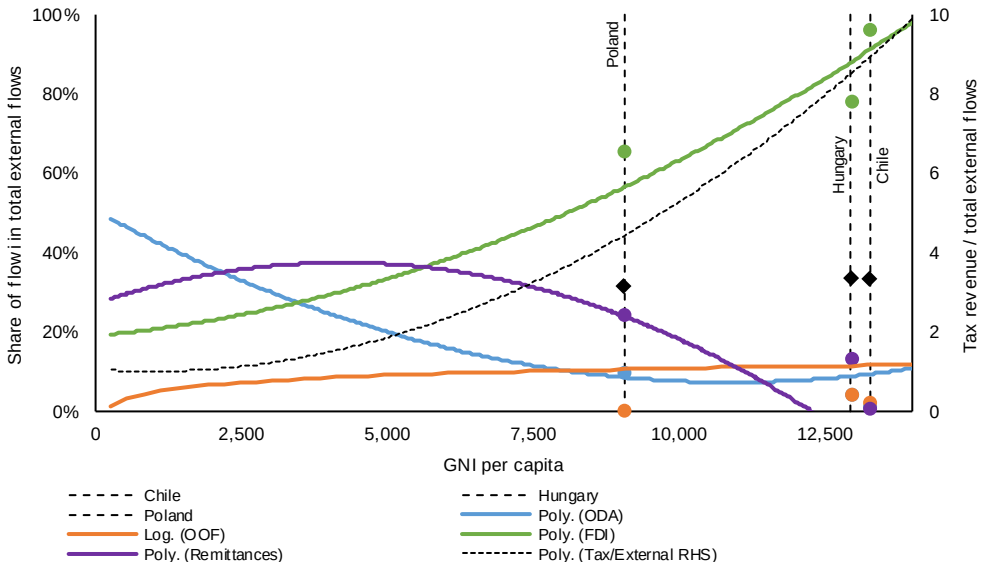


Source: (OECD, 2019[9]) Creditor Reporting System (database), https://stats.oecd.org/Index.aspx?DataSetCode=CRS1 (DAC2a and DAC2b tables).

At the time of graduation, FDI was the most significant external financing source in Chile, Hungary and Poland. Poland and Hungary both graduated from ODA in 2005 because of joining the European Union in 2004. At that point, both countries were still classified as upper middle-income countries. ODA prior to graduation was largest in Poland, reflecting also its somewhat lower income level per capita (Figure 2.2). Though, ODA and OOF were small overall across the three graduates. FDI was the most prominent resource among all countries' financial inflows; the share however is largest in Chile. Tax revenues were about three times the size of total external inflows in all three countries, below the general trend.

Figure 2.2. FDI in Chile accounted for a larger share in external financing and remittances are less sizeable than in Poland and Hungary

Finance mix at the time of graduation (2002-2004 for Hungary and Poland; 2015-2017 for Chile), 2017 USD.

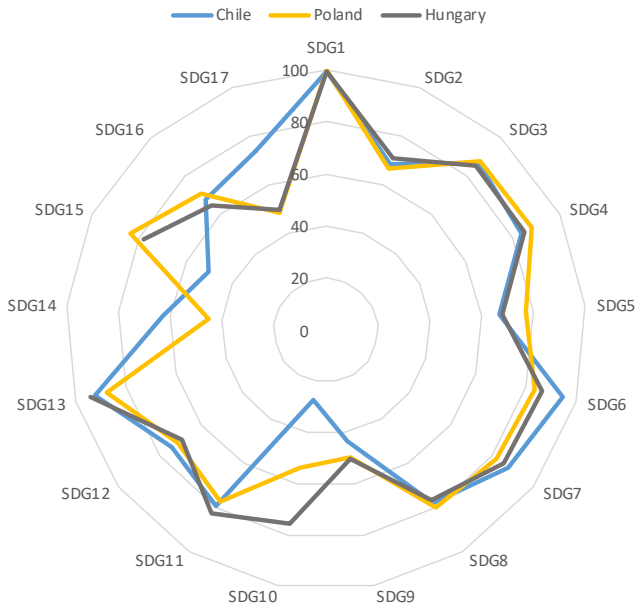


Note: Values for Hungary and Poland are adjusted using the USD GDP deflator series from the World Bank. Flows in Hungary and Poland show average inflows between 2002 and 2004, building the three year average prior to graduation. Respectively, Chilean flows are average inflows between 2015 and 2017

Source: (OECD, 2019[9]) Creditor Reporting System database for ODA and OOF flows https://stats.oecd.org/Index.aspx?DataSetCode=CRS1; (OECD, 2019[10]) OECD/DAC database for private flows https://stats.oecd.org/Index.aspx?DataSetCode=REF_TOTALRECPTS; (World Bank, 2019[2]) , World Bank database for remittances https://data.worldbank.org/indicator/NY.GNP.PCAP.KD; UNWIDER Government Revenue dataset (UNWIDER, 2019[11]) for tax revenues https://www.wider.unu.edu/project/government-revenue-dataset.

Currently, for 13 of 17 SDGs, performance among Chile, Hungary and Poland is strikingly similar. Figure 2.1 below shows Chile's performance in a SDG context vis à vis Hungary and Poland. It is interesting to note that the countries perform very similarly in 13 out of 17 SDGs. This could suggest that countries at this level of development (as measured by GNI per capita) also face similar challenges to achieve sustainable development.

Figure 2.3. SDG performance in Chile vis à vis two countries currently presenting similar income per capita levels, Hungary and Poland, 2017



Note: 0 means that a goal is not achieved; 100 that the goal is fully achieved.
Source: Authors' representation based on (Bertelsmann Stiftung and Sustainable Development Solutions Network, 2018[17]) https://www.sdgindex.org/assets/files/2018/02%20SDGS%20Country%20profiles%20edition%20WEB%20V3%20180718.pdf.

Compared to Hungary and Poland, Chile scores lower in terms of reducing inequality and protecting natural habitats and biodiversity. Notwithstanding the above, Figure 2.1 also shows that Chile particularly scores lower in SDG 10 "Reduced inequality" and SDG 15 "Life on land", while surpassing Hungary and Poland in SDG 17 "Partnerships for the goals". Chile's higher score for SDG 17 is driven by two factors: first, Chile's performance in the index's financial secrecy score (61.6) exceeds that of Hungary (54.7) and Poland (57.35). Second, the SDG 17 score also includes ODA commitments as percentage of GNI in the case of Hungary and Poland. At around 0.1 % of GNI, both countries score relatively low compared to the considered 0.7% target, substantially deteriorating Hungary's and Poland's SDG 17 score (Bertelsmann Stiftung and Sustainable Development Solutions Network, 2018[17]).

Hungary and Poland benefit from the European Union (EU) drawing interest to regional opportunities for Chile. Hungary and Poland both benefitted from the European integration process. Indeed, Chile seems to be among the most advanced countries in its region and the region's different developmental levels raise the question whether Chile could equally, as Hungary and Poland with the EU, benefit from better and more integrated regional partnerships at this point. Section 3.2.2 below on 'renewed economic diplomacy' elaborates such opportunities in more detail.

Looking for other countries to benchmark Chile's graduation from ODA, two other countries, Uruguay and Korea, also do not fall under one of the three country groups of ODA graduates outlined above. These two countries will be the object of comparison in the following sections.

2.1.2. Comparing Chile and Uruguay

Chile and Uruguay both graduated from ODA in December 2017. While the two countries' economies differ substantially, a comparison might be useful to better distinguish and understand the specificities of

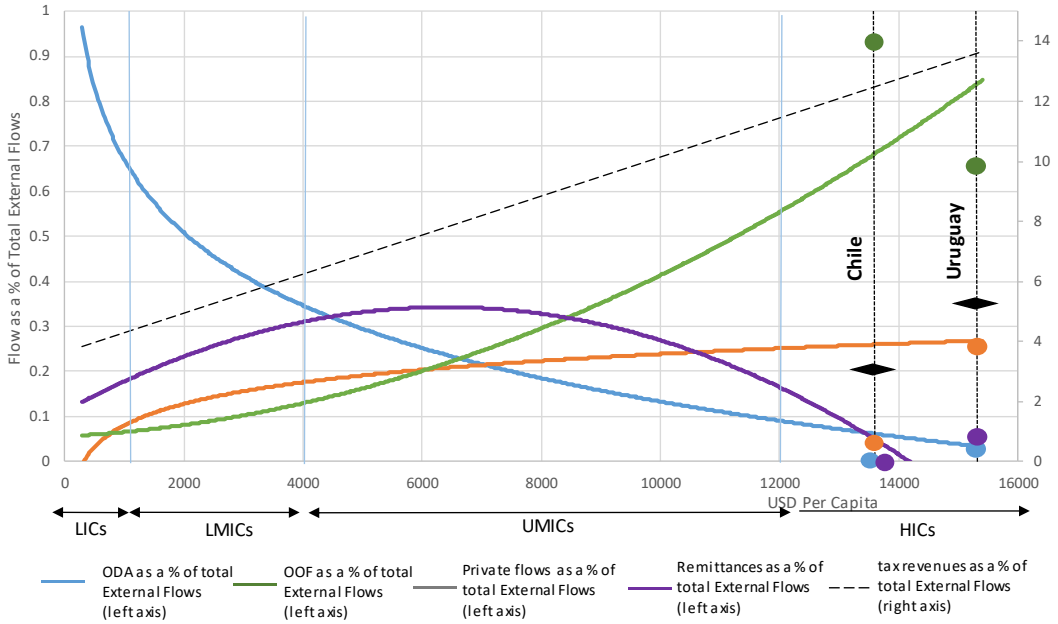
the Chilean case. It also allows to identify common regional characteristics in the two countries' development experience and financing mix.

Despite their differences, Chile and Uruguay share common characteristics and challenges. Chile and Uruguay are both Spanish-speaking South American countries[39] who they graduated at the same time from the DAC list of ODA recipients in 2017[40]. Figure 2.1 shows their positioning relative to the global transition finance picture in 2013-17 with GNI per capita somewhat higher in Uruguay than Chile.

Although the magnitudes differ, foreign direct investment and other official flows dominate Chile's and Uruguay's external transition finance mix. As highlighted previously, external finance inflows to Chile consist almost exclusively of FDI flows, that is 92% of total external flows, and are above the trend in countries with a similar level of GNI per capita. The remaining external flows consist almost exclusively of non-concessional flows of public origin (OOF, most of them issued by multilateral organisations). In the case of Uruguay, FDIs represented 67% of total external flows, significantly below the trend of countries with similar levels of development (85%). Other official flows (OOF) represented 24% of total external flows, right on the trend for countries at a similar level of development. ODA and remittances, for both Chile and Uruguay, are nearly non-existent.

Figure 2.4. Chile's and Uruguay's external financing and tax revenues relative to all developing countries

DAC, non-DAC OECD members and multilateral agencies' outflows, 2013-17 net disbursements, 2016 prices



Note: Coloured dots correspond to the Chilean and Uruguayan situations and should be compared to the respective coloured lines (averages for all ODA recipients).
Source: (OECD, 2019[9]), Creditor Reporting System database for ODA and OOF flows https://stats.oecd.org/Index.aspx?DataSetCode=CRS1; (OECD, 2019[10]) OECD/DAC database for private flows https://stats.oecd.org/Index.aspx?DataSetCode=REF_TOTALRECPTS; (World Bank, 2019[2]) , World Bank database for remittances https://data.worldbank.org/indicator/NY.GNP.PCAP.KD; UNWIDER Government Revenue dataset (UNWIDER, 2019[11]) for tax revenues https://www.wider.unu.edu/project/government-revenue-dataset.

Foreign direct investment: linking quality to quantity

High in quantity for countries at higher levels of income per capita, one also needs to ensure the quality dimension of foreign direct investment. As highlighted in Figure 2.1, FDI begins to acquire its

highest share at development stages similar to those of Chile and Uruguay. In fact, given Chile's high levels of FDI relative to countries at its level of development, it could itself be an example for others to follow. Nevertheless, it is worth considering the quality of these investments. Are they SDG-compatible? Could it be possible to measure this?

Some efforts to increase the development footprint in Chile have already been ongoing, which could be imitated or inspire similar initiatives by other FDI mining investments**.** Box 2.1 below shows some efforts already undertaken by the national mining firm CODELCO. Indeed, such efforts merit replication, as they could open debate and reflection on creating an international standard through which to measure the impact of SDG-compatible investments.

DAC members should invest in the development of a standardised and internationally recognised impact evaluation criterion in order to secure sustainable and SDG-compatible investment.

Box 2.1. Sustainable copper production

The 'Corporación Nacional del Cobre' (CODELCO) is Chile's biggest copper mining company (33% of local copper production) and furnishes 11% of the world's copper supply. The firm is evaluated at USD 78 billion and is the single largest provider of tax revenues in the country (in 2018 its contribution to the Treasury represented USD 1.7 billion).

Currently, CODELCO is engaging in an eco-labelling or footprint assessment to ensure that its copper production is 100% sustainable. This initiative engages the full production chain of copper cathodes, from water to cellulose to waste treatment and beyond. To date, 10% of CODELCO's production is eco-labelled. Even if this results in copper produced at higher prices, the demand from international manufacturers is increasing.

Domestic resource mobilisation: a work in progress

The level of tax revenue in Chile and Uruguay compared to external inflows is relatively low. Figure 2.1 also illustrates the level of tax revenues relative to external flows that one generally observes across developing countries. Both Chile and Uruguay are lagging behind the trend observed by their peers. In the case of Uruguay, tax revenues represented 5.1 times the total of external financial flows compared to a trend value of 14. For Chile, tax revenues amounted to 2.3 times its inflows of external finance compared to a trend value of 13. However, these low levels have to be considered with caution, as especially in the case of Chile, they are in some grade explained by exceptionally large FDI levels. More relevant in this case could be to observe tax-to-GDP ratios: in the case of Chile it stood at 20.2% in 2017, much below the OECD average of 34.2%, and amounted to 30.9% in the case of Uruguay (OECD, 2019[18]). Among OECD members, only Mexico showed lower tax revenue (16.2% of GDP) than Chile in 2017.

In order to ensure smooth and sustainable development in late upper middle-income transition stages, DAC members can assist developing countries mobilise appropriate levels of domestic resources.

In the spirit of the Addis Ababa Action Agenda (AAAA), official development assistance should be used to mobilise additional resources for financing development. Domestic resources such as tax revenue are essential for a country's ability to self-sufficiently finance its national expenditure including investment and social transfer programmes. To maximise the resources for sustainable development, technical co-

operation between DAC members and recipient countries paramount. This is particularly important when countries approach graduation from ODA.

2.2. The aspirational path: Lessons from Korea

2.2.1. Avoiding the middle-income trap

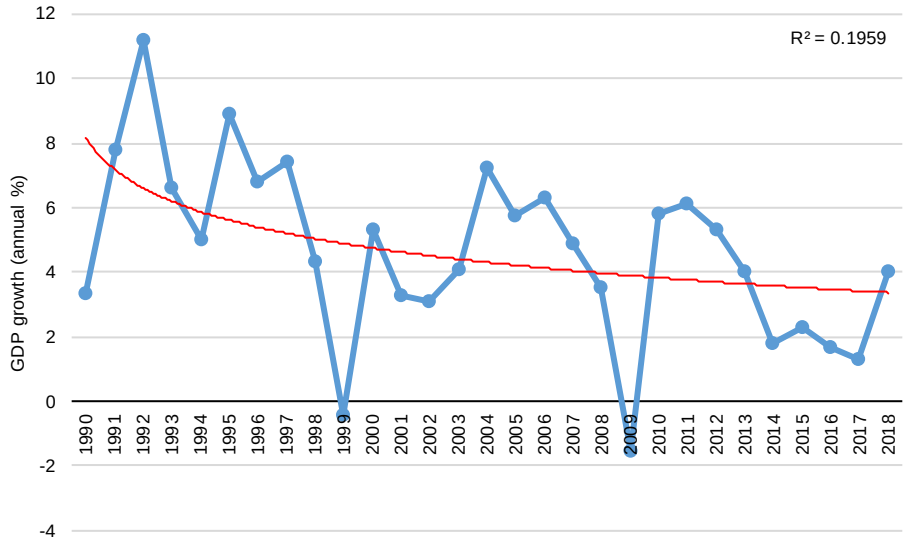
Development is not linear: transitioning from middle to high-income status entails a number of challenges as illustrated by the limited number of success stories. Since 2010, only ten countries have reached and sustained high-income country status including countries within the European vicinity (Croatia, Latvia), small island developing states (Palau, Seychelles, Antigua and Barbuda, St. Kitts and Nevis) and countries in Central and Latin America (Panama,[41] Chile, Uruguay).

Some scholars argue that middle-income countries face particular difficulties in maintaining growth. In the literature, one often finds a reference to the 'middle-income trap' which suggests that countries at middle-income level have difficulties in reaching higher income levels. While the concept is contested, Larsen, Loayza and Woolcock (2016[19]) point out that countries in Latin America and the Middle East have stagnated at middle-income levels for four to five decades. The Asian Development Bank, considering different definitions of the middle income trap, concludes that Latin America and the Caribbean is the most affected region of the middle-income trap (Pruchnik and Zowczak, 2017[20]). Work of the OECD has identified governance (rule of law and political stability), education (quality of secondary education and tertiary attainment), investment, capabilities, finance (liquidity in the stock market and domestic credit provided by the financial system), and taxation as key political determinants to escape the middle-income trap (Melguizo et al., 2017[21]).

Chile's GDP growth was low between 2014 and 2017 but increased again most recently. Lower GDP growth between 2014 and 2017 signals that continued growth for Chile is not self-perpetuating (Figure 2.3). The greater economic expansion in 2018, however, provides a more positive outlook.

Figure 2.5. Chile's economic growth has been fluctuating and low from 2014-2017

Annual GDP growth (%)

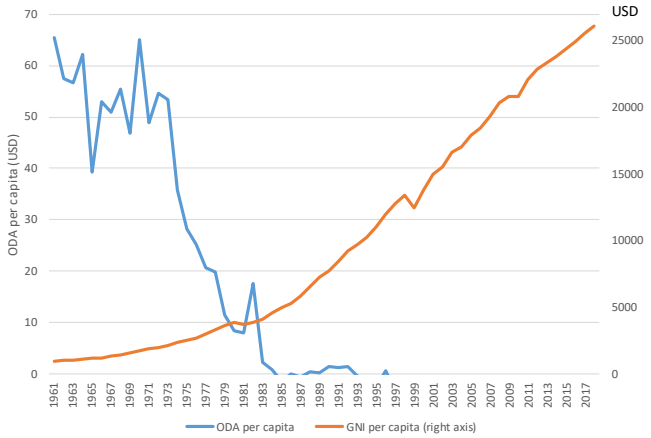


Source: (World Bank, 2019[2]) World Bank database https://data.worldbank.org/indicator/NY.GNP.PCAP.KD

The Republic of Korea recorded successively high growth and achieved the transition to an advanced economy. Among the former ODA graduates, Korea recorded high successive growth rates and transitioned to an advanced economy. Korea became an OECD member in 1996 and joined the Development Assistance Committee (DAC) in 2010. It had previously graduated from the DAC list of ODA recipients in 2000. Figure 2.2 shows the evolution of ODA to Korea and its rising GNI per capita from the 1960s onward.

Figure 2.6. Korea: an impressive success story

ODA per capita (constant USD 2017 prices) and GNI per capita, Atlas method, constant 2010 prices.



Source: Author's calculations based on (OECD, 2019[9]) Creditor Reporting System statistics https://stats.oecd.org/Index.aspx?DataSetCode=CRS1 and (World Bank, 2019[2]), World Bank's database https://data.worldbank.org/indicator/NY.GNP.PCAP.KD.

Prior to ODA graduation, Korea and Chile received similar levels of OOF while ODA to Korea had phased out more quickly. Comparing ODA and OOF per capita levels in Chile and Korea from the 1960s until its graduation, both countries received similar levels of OOF per capita prior to their removal from the DAC list of ODA recipients (Table 2.1). In the decade before their respective graduations, Chile and Korea received on average USD 70.9 and USD 74.9 per capita in OOF respectively. ODA per capita levels, however, remained relatively high in the case of Chile at USD 22.3 per capita on average in the decade prior to graduation and at USD 16.1 two decades before. ODA phased out more quickly in Korea: ODA per capita levels reached on average USD 2.8 two decades before Korea's graduation, and a negative value of USD -1.1 on average one decade before its graduation (due to reimbursement of ODA loans).

Table 2.1. Comparison of ODA and OOF levels in Chile and Korea in the decades leading up to ODA graduation

USD disbursements, 2017 prices.

		1960-69	1970-79	1980-89	1990-99	2000-09	2010-17
Chile	ODA per capita	155.6	38.2	13.4	32.0	16.1	22.3
	OOF per capita	39.5	-14.3	104.4	-39.7	31.5	70.9
Korea	ODA per capita	55.2	30.6	2.8	-1.1	-	-
	OOF* per capita	78.5	153.9	-11.6	74.9	-	-

Note: * Corresponds to 1966-69, no data were available for the previous years.
Source: (OECD, 2019[9]), OECD/DAC database (DAC2a and DAC2b tables) https://stats.oecd.org/Index.aspx?DataSetCode=REF_TOTALRECPTS

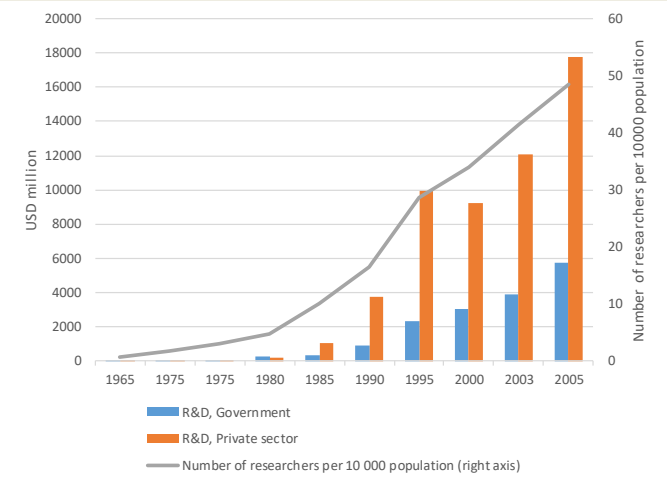
Korea's policies to foster investment in innovation and continued ODA to Chile explain the differing phasing out of ODA to Chile and Korea. Two explanations emerge to account for the different pace of ODA phase out in Chile and Korea: first, some ODA loans continued to flow to Chile despite the country's ability to finance investments on market terms (see Box 1.1). DAC members' optimising its risk portfolio help explain this occurrence. Second, Korea launched a more aggressive internal programme to invest in innovation and neither needed nor desired higher levels of external technical co-operation (see Box 2.2).

Box 2.2. Reasons why Korea was able to increase R&D investment so rapidly

Since the beginning of the 1980s, and because of its previous development programme, foreign companies began to perceive Korea as a competitor and were reluctant to transfer new technologies. At this time, the government loosened its FDI regulations and instead looked to incentivise investments in indigenous R&D. In 1982, having a GNI per capita of USD 4 580, Korea launched its first R&D programme, incentivising and promoting private R&D activities. Based on export performance, this new programme consisted of direct government provisions of financial and other incentives to companies. At this time, Korean firms invested in R&D to keep pace with global technological change. Massive investment in indigenous R&D followed (Figure 2.3).

Nevertheless, as confirmed by the Korean authorities, R&D was able to grow at this pace and continuity because of an abundant pool of highly educated workers that could meet the increasing demand for R&D. One can conclude that a lack of human resources can constrain R&D investments even more than financial limitations. This last statement should be carefully taken into account for peers, such as Chile, when designing public policy to incentivise investments in innovation.

Figure 2.7. Korean R&D was driven by private investments



Note: This Box and Figure 2.5 are both based on (Chung, 2007[22]) 'Excelsior: the Korean Innovation Story' https://issues.org/chung/.

Chile has put in place a number of initiatives to foster R&D investments but needs to do more to close the gap to the OECD average. Chile has multiple initiatives to help people, SMEs and larger firms to invest in R&D. Nevertheless[42], investments in R&D remain far below the OECD average at 0.35% of its GNI[43]. If, as highlighted in the Korean case, one requires a minimum level of educational to increase and absorb R&D investments, this level might not be reached by the Chilean society. In this case, tackling major educational constraints should be a priority to eliminate the bottleneck to R&D transformational

investments (see Box 3.1). This 'educational momentum' could be a source of additional research that the DAC community could help facilitate.

Learning from the Korean experience, DAC members could in particular focus on helping build – together with partner countries that approach HIC levels – a solid education sector. This would help countries absorb massive innovative investments and set up modern, forward-looking economies.

Following the ABC framework, the next Chapter 'C' (Counselling) will explore how DAC members and development partners can continue supporting Chile's sustainable development. It first stresses the need to overcome persisting socio-economic inequalities in Chile (co-operative approach), followed by stressing the opportunities of economic diversification, regional integration and new forms of economic relationships. Lastly, the section outlines the potential of new forms of partnerships, for example through regional organisations and Chile's participation in international organisations and forums.

3 Counselling

Chile still faces a number of challenges that risk the inclusiveness and sustainability of its economic success: social growth should go hand in hand with economic growth: inequalities are high and the socio-economic background strongly affects students' educational performance. Chile is also vulnerable to natural disasters and exposed to climate change. DAC members could support Chile in tackling these issues beyond instruments of official development co-operation by continuing the transfer and exchange of knowledge and technology, and peer-to-peer learning.

To continue its economic growth path and mitigate its exposure to volatility in the global demand for copper, Chile could continue its path of 'servicification'. Building on its firm commitment to international trade, Chile could also continue strengthening its co-operation in the LAC region. Economic relationships can be revitalised with its former providers of development assistance who can continue to support Chile adapt high social and environmental standards and facilitate quality FDI. Well-developed and liquid capital markets in Chile, including the country's pension system, provide opportunity to create SDG-compatible sustainable investment markets. Therefore, the creation of international measurement standards and certification is critical.

Chile's membership and participation in several international forums provides opportunities for Chile to seek international co-operation in selected topics. As an OECD member, Chile could benefit from institutional knowledge and peer-to-peer learning. In the last years, Chile has also become an important player in triangular co-operation. These elements also

present examples of important opportunities for late upper middle-income countries or recent ODA graduates.
Lastly, the analyses reveals a lack in institutionalised data and knowledge sharing on continued collaboration after ODA graduation. There is no mechanism in place to draw on the experience from previous ODA graduations to better respond to upcoming graduations. Development partners and graduating countries could join forces in a "Graduates Club" to facilitate discussion, share experience and knowledge, and continue to monitor assistance and co-operation among the stakeholders.
The concluding section on 'Counselling' provides recommendations for the future relationship between DAC members and Chile.

First, the section focusses on tackling persisting socio-economic challenges such as high income and regional inequalities (Section 3.1 the co-operative approach). Second, the section explores opportunities for renewed economic relationships and Chile's economic diversification (Section 3.2 the competitive approach). Finally, the third section explores new type of partnerships between Chile and its former providers of development assistance (Section 3.3 renewed partnerships).

3.1 The co-operative approach: Chile still faces a number of development challenges to address

3.1.1. Inequalities and other vulnerabilities

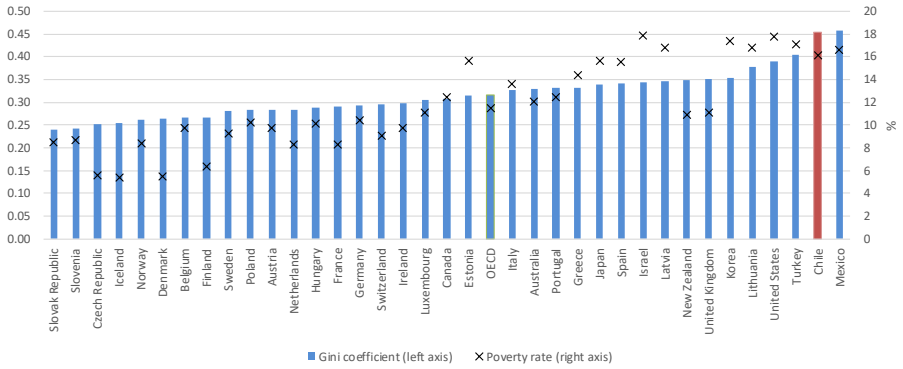
In spite of sustained economic growth that has allowed Chile to reach HIC status, the country still faces a number of development challenges. If not addressed, these could challenge the inclusiveness and sustainability of Chile's growth. The journey to sustainable development does not stop at income thresholds or when one type of development co-operation gives way to another. All countries, from low income to high income, remain bound by the 2030 Agenda and the Sustainable Development Goals (SDGs)[44].

Inequalities remain high in Chile

Inequalities are among the most pressing issues Chile has to address. The Chilean Gini coefficient, a measure of income concentration, remains high at 45.5 and largely exceeds the OECD average (21), despite having dropped from levels as high as 57.2 in 1990 (Figure 3.1). In 2015, Chile's top 10% income earners accounted for 39.35% of total net income while the lower half of all income earners, together, made up only 19.23% of total net income (UNU-WIDER, 2018[23]).[45]

Figure 3.1. Income inequality and poverty rates are high in Chile compared to other OECD countries

Inequality (Gini coefficient) and poverty rate at 2016 or latest available year.



Note: The Gini coefficient is a measure for income inequality. The Gini is zero if everyone has the same income and is one if a single person has all the income. The poverty rate is the share of the population with an income of less than 50% of the respective national median income. Both indicators are calculated after taxes and transfers, adjusted for difference in household size. Notwithstanding the information provided by the Gini coefficient and its usefulness in helping compare countries, it worth noting that Chile has developed its own tool for measuring poverty through a multidimensional indicator (which includes inequalities). The "Casen" survey integrates five societal dimensions: (i) education, (ii) health, (iii) work and social security, (iv) housing and environment and (v) nets and social cohesion. While this indicator cannot enable comparisons with other economies, it is nevertheless important to consider when evaluating local public policies. See (Ministerio de Desarrollo Social - Chile, 2016[24])

Source: (OECD, IDD database, 2019[25]) OECD Income distribution database, https://www.oecd.org/social/income-distribution-database.htm

Box 3.1. Educational disparities in Chile

Great difficulties in accessing free, high-quality education in Chile are a structural factor of inequality.

Education is mostly financed through private sources in Chile, and obtaining a high-level education is even more expensive. In fact, Chile had by far the largest share of private expenditure for primary through tertiary education among OECD countries in 2012, more than double of the OECD average. Indeed, Chile is one of the countries participating in PISA 2015 where the socio-economic background of students most influences performance. Socio-economic status explained 17% of the variance of Chilean students' science performance on PISA 2015.

As also explained in (OECD, 2017[26]) 'Chile has the greatest inequalities based on educational attainment in the OECD, as measured by returns on education'. Chilean tertiary graduates earn 160% more on average than upper secondary graduates (60% among OECD countries), and the earnings premium for individuals with a master's degree or higher level of education can expect to receive 444% of upper secondary graduates' earnings (191% in the OECD average). Table 3.2 compares earning premiums from education in Chile with the OECD average.

Table 3.1. Earnings and educational attainment

Earnings of 25-64 year-old workers by educational attainment compared with upper secondary education graduates (%)

	Chile (2013)	OECD (2014)
Below upper secondary	-36	-19
Short-cycle tertiary	+32	+20
Bachelor's or equivalent	+182	+48
Master's, doctoral or equivalent	+344	+91
All tertiary education	+139	+55

Source: (OECD, 2016[27]), Education at a Glance 2016. https://www.oecd-ilibrary.org/education/education-at-a-glance-2016_eag-2016-en

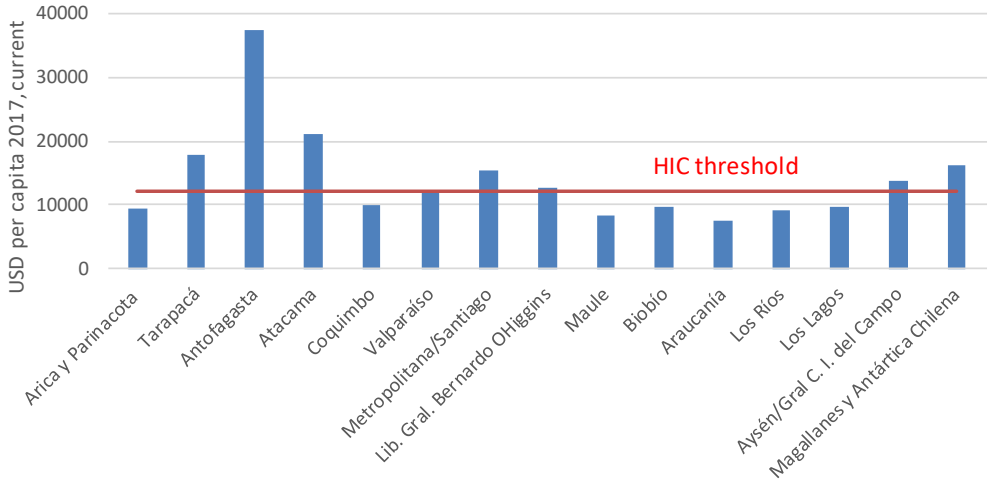
OECD research suggests enhancing social spending and redistribution and provides lessons learnt from other OECD members. The OECD's Economic Survey of Chile (2018[3]) highlighted the limited redistribution through taxes and transfers and suggests to increase social spending and cash benefits to reduce inequality. The report also promotes increasing public revenue through environmental, property and personal income taxation to increase equity. Another study conducted by the OECD's Regional Programme for Latin America and the Caribbean highlights lessons that can be drawn from other OECD countries to tackle inequalities (OECD, 2017[28]).

Development partners have engaged in projects seeking to improve equitable access to quality education. Unequal access to quality education in Chile, particularly tertiary education, is a major impediment to greater equity (see Box 3.1). A USD 100 million loan by the World Bank approved in 2016 aimed to promote equal opportunities in education and improve the quality of public tertiary education.[46] Seeking to improve vocational training, experts from GIZ, the German development agency, advised and assisted Chilean institutions with integrated experts on dual training. Several French companies have opened vocational training centres in Chile through public-private partnerships.

Regional disparities

Opportunities for regional populations in Chile are highly unequal. Whereas the region of Antofagasta in the north of the country (where the major mining works are concentrated) reached a GNI per capita of USD 37 420 in 2017, the Araucanía region in the south only reached USD 7 584[47]; that is, one-fifth of the richest region (Figure 3.2). Also, seven of the country's fifteen regions fall under the HIC threshold of USD 12 055 in 2017.

Figure 3.2. Seven of the fifteen Chilean regions fall under the high-income country threshold



Source: Author's calculations using (INE Chile, 2019[29]) Instituto Nacional de Estadísticas' database https://www.ine.cl/ (population statistics, and (regional GNI statistics on https://si3.bcentral.cl/estadisticas/Principal1/informes/anuarioCCNN/index_anuario_CCNN_2017.html?chapterIdx=-1&curSubCat=-1 .

Environmental vulnerability

Chile is vulnerable to natural disasters, in particular earthquakes, and its coastlines magnify challenges due to climate change. Since 1960, Chile has experienced a dozen earthquakes with a magnitude superior to eight (Richter scale),[48] exerting high economic and social consequences. The 2010 earthquake, for example, cost USD 30 billion or 19% of GDP.[49] Finally, given Chile's extensive coastlines, the country faces large challenges due to climate change. Some studies have estimated its costs as ranging from USD 16 to 67 billion until 2050.[50]

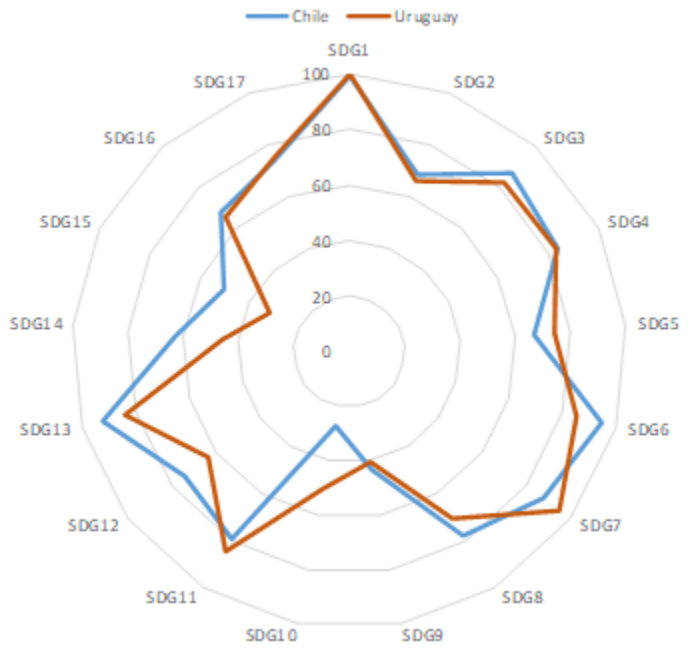
Strong regulations and local savings, however, build resilience towards Chile's environmental vulnerabilities. As pointed out by the IDB, Chile has been able to build resilience in its economy to limit the financial effects of such catastrophes, mainly through strong regulations (high-quality norms favouring the construction of very resistant infrastructure) and a high level of local savings[51] that enable the country to finance reconstruction programmes when needed.

Development partners assist Chile improve forecasting and responding to natural disasters such as wildfires. The United Kingdom provided ODA grants to create a prototypical regional disaster forecast and management hub in Chile that incorporates disaster management mechanisms using information management technologies and big data. The Global Wildfire Information System (GWIS) from the European Commission's Joint Research Centre provides near real time information on active wild fires in Chile. As part of the EU Civil Protection Mechanism, France, Portugal and Spain provided assistance to Chile on forest fighting operations in 2017.

A comparison with Uruguay

Chile and Uruguay perform similarly with respect to the SDGs while differences concern primarily three out of the 17 goals. Chile scores better than Uruguay for SDG 14 (Life below water) and SDG 15 (Life above land) but lags behind its regional peer for SDG 10 (Inequalities). Figure 3.3 shows the 2017 SDG performance indicators for Chile and Uruguay (Lafortune et al., 2018[30]).

Figure 3.3. SDG performance in Chile vis à vis Uruguay, 2017

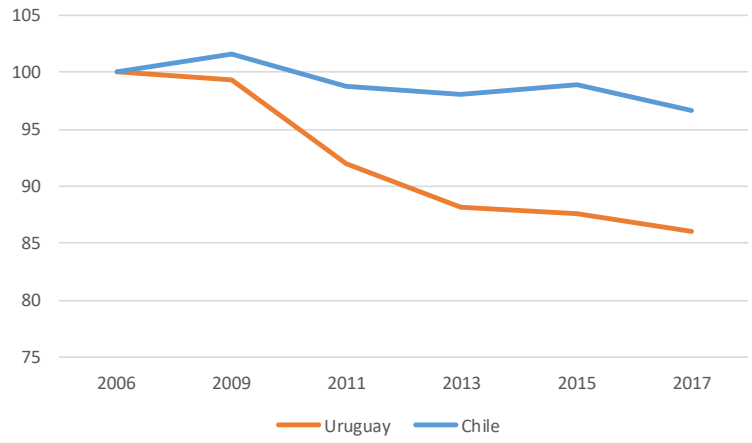


Note: 0 means that a goal is not achieved; 100 that the goal is fully achieved.
Source: Authors' representation based on (Bertelsmann Stiftung and Sustainable Development Solutions Network, 2018[17]) SDG Index and Dashboards Report
https://www.sdgindex.org/assets/files/2018/02%20SDGS%20Country%20profiles%20edition%20WEB%20V3%20180718.pdf

Chile and Uruguay both present high inequalities, even if each countries has made progress in recent years.[52] In 2017, the Gini coefficients are 39.5 in Uruguay and 46.6 in Chile, having decreased from levels of 45.9 and 48.2 respectively since 2006 (see Figure 3.4). Moreover, while the share of income held by the richest 20% of the population has decreased in Uruguay from 51.2% to 44.6% between 2006 and 2013, it has remained constant in the case of Chile at around 55.5%. For the same period, the income share held by the bottom 20% increased from 5.0% to 6.2% in Uruguay and increased somewhat slower in Chile from 4.4% to 4.9% (UNU-WIDER, 2018[23]).

Figure 3.4. Inequalities have dropped faster in Uruguay than in Chile

Base 2006=100, Gini coefficient



Source: Author's calculations based on (World Bank, 2019[2]), World Bank's database https://data.worldbank.org/indicator/NY.GNP.PCAP.KD.

Inequality in Latin America appears to be driven by several factors including income level, tax revenue, public expenditure and education. The academic literature confirms that multiple factors or variables can explain income inequalities. Some of the most commonly cited are the poverty rate(s), the education levels (and their disparity), the gender income gap, the redistributive role of the state, and the levels of mobilised domestic resources. A recent study focusing on the LAC region identifies income per capita, tax revenues, social security expenditure, public health expenditure, extreme poverty rates, and education as the most prominent variables explaining income inequalities in the region (Ramos, Alvargonzález and Moreno, 2018[31]). Table 3.1 shows these indicators for Chile and Uruguay.

Table 3.2. Determinant factors of income inequality in the LAC region, 2017

	Chile	Uruguay
GNI per capita	USD 13 610	USD 15 250
Tax revenues as % GDP	7%	7.5%
Social security contributions % GDP*	1.5%	9.7%
Public health expenditure % GDP	8.1%	9%
Extreme poverty rate	2.3%	2.7%
Literacy rate	97.5%	98.6%
Years of study*	11.05	8.6

Note: * Social security contributions in Chile are very low because the system is almost entirely private.
* *Population over 25 years, average.
Source: Base de datos global de estadísticas tributarias (OECD/TAX, 2019[32]) https://www.oecd.org/tax/tax-policy/base-de-datos-global-de-estadisticas-tributarias.htm , La inversión en salud de Uruguay representó del PIB en el 2017 (Uruguayan Presidency News, 2019[33]) https://www.presidencia.gub.uy/comunicacion/comunicacionnoticias/ferreri-basso-cancer-saludand, La educación en Uruguay mirada desde los Objetivos de Desarrollo Sostenible (Bogliaccini, 2018[34]) https://www.ineed.edu.uy/images/publicaciones/informes/InformeODS_v06.pdf.

Uruguay's indicators seem more favourable to reduce inequalities but Chile has set promising measures over time. Table 3.1 illustrates that almost all indicators of inequality reducing variables are currently higher in the case of Uruguay (with the exception of extreme poverty rates and years of studies). This could explain its faster declining rate of inequalities. Nevertheless, when adding a trend variable to

the model, (Ramos, Alvargonzález and Moreno, 2018[31]) concludes that Chile is leading in Latin America in combining the most promising policies and characteristics to reduce inequalities.

Geographical dimensions are important in the design of public policies targeted at reducing inequalities. Various studies highlight the importance of introducing geographical dimensions (rural, urban and regional) when devising public policies. (Melo, Donoso and Abarzua, 2010[35]) asserts that in addition to the factors highlighted above, the rural and urban conditions can affect the efficiency of public policies. In this sense, public policies should be adapted to the local context and need to differentiate rural from urban interventions.

3.1.2. Mobilising resources for the 2030 Agenda

Chile's remaining inequalities and vulnerabilities raise a number of questions with regard to ODA graduation and the country's capacity to achieve the SDGs. While domestic resources need to be better mobilised to harness the challenge of financing the 2030 Agenda, DAC members should also reflect better managing transition and a continued solidarity in the financing of global public goods.

Box 3.2. Economic versus social growth: incorporating multidimensional warning indicators in order to advise the DAC on how to better help partners countries prepare a smooth transition to high-income country status

The recent street protests in Chile (October 2019) had shown that the economic growth of the country has not been translated into the social advances as those expected by its citizens. Indeed, inequalities are the core focus of discontent expressed by the population. And even if the situation has improved in recent years, the GNI growth that has led the country to ODA graduation has also been accompanied by decreases in inequalities, the latter remain high with a pace of insufficient reduction.

This situation offers some lessons for the DAC on how to better accompany countries at the upper middle-income stage of development to transition to high-income status.

Indeed, even if the GNI per capita criteria for ODA eligibility is not put into question (its universality, comparability and other practical reasons, e.g. availability of data in developing countries, justify its use and utility), it is also truth that surpassing a threshold does not automatically mean that the country is in a healthy situation to graduate.[53] In this sense, other warning indicators can also be highlighted and used in order to better apprehend countries' real situations. Inequalities and environmental vulnerability are examples.

In this regard, what should be the DAC's priorities when a country grows fast and will graduate in the near future while it still observes strong inequalities? Should the focus be on governance? On mobilising domestic resources for building national economic and social solidarity mechanisms? In line with development's multidimensionality, co-operation providers could usefully deploy, for example, special technical assistance funds/methods and produce principles/recommendations on how to execute this kind of assistance.

These 'warning' signals or multi-dimensional indicators and how/when to apply them, and what they imply for DAC portfolio management strategies, could be the subject of further OECD/DCD work and recommendations.

The role of ODA to mobilise additional resources for financing the SDGs

The trillions needed to finance the SDGs are in the financial system, but they are often off-focus and need to be shifted. The 2019 Global Outlook on Financing for Sustainable Development (OECD,

2018[14]) stressed the risk of OECD countries defaulting on their commitment to finance the 2030 Agenda. Between 2013 and 2016, global external development finance dropped by 12%. With scarce public (concessional) resources, private investment plays a key role in financing the SDGs. Recent data, however, points to a serious contraction of foreign direct investment (FDI). Between 2016 and 2017, FDI dropped by 30%, reflecting the volatility of these resources compared to stable inflows of ODA. Meanwhile, efforts to mobilise domestic resources remain insufficient.

Official development assistance (ODA) may play a key role in helping partner countries transition on this journey. The example of Chile demonstrates the need to maintain the provision of technical co-operation even after its graduation from ODA. As emphasised by national authorities and evidence-based studies that address inequalities, this technical co-operation delivered in the form of international expertise is important to tackle major persisting challenges in Chile. Technical co-operation to renewable energy projects – for example, innovation, R&D, specialisation trainings – is essential in securing sustainable growth and addressing environmental challenges in Chile.

ODA can help mobilise and maximise additional resources for financing the SDGs, especially before it is progressively phased-out. In the spirit of the Addis Ababa Action Agenda (AAAA) that called for a holistic approach to financing the 2030 Agenda, ODA should aim to mobilise all available resources – domestic and foreign, public and private – in support of the SDGs. This means ensuring that other resources are mobilised when ODA is progressively phased-out, particularly to avoid financing and capacity gaps and since ODA often serves as seed finance in countries most in need.

Domestic resources: Could Chile become a pioneer in pension fund SDG alignment?

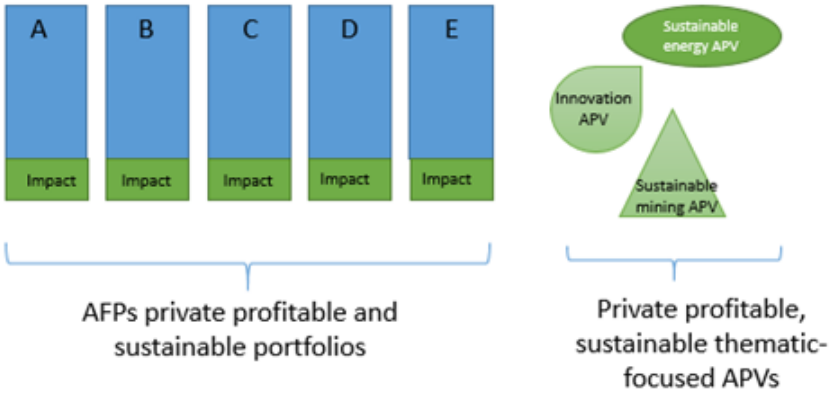
Preparing transition, especially in UMIC stages, could require international assistance to adopt innovative financing solutions (blended finance, guarantees, etc.) and to create new markets and partnerships. Often, the “soft” dimensions of development co-operation (capacity) are underestimated compared to the “hard” ones (funding). Transition, most importantly, must ensure that both legacies survive. In this regard, facilitating the creation of a new, well-organised and transparent impact-investment market could help shift the trillions required to finance the SDGs.

The Chilean capital market is one of the deepest and most liquid in Latin America. The Chilean capital market amounts to a market capitalisation of approximately USD 190 billion (at the same level as Norway and slightly larger than Turkey)[54]– or 106% of its GDP. This is mainly due to its large and mature private pensions system with almost 40 years of activity.

Chile’s pension system requires each employee to contribute one-tenth of their salary to one of five portfolio options. Currently, Chileans save the resources they will receive upon retirement in individual accounts. The law requires that every formal employer retain and deposit 10% of every employee’s salary[55] to the pension fund (or the so-called AFP[56]) chosen by each employee[57]. The employee chooses among five alternative portfolios, each one associated with a different level of risk, and a different (expected) return. The AFPs invest the funds until the employee’s retirement, when it begins to pay off the pension in monthly deposits.

On top of the compulsory pension contribution, voluntary saving portfolios exist. There also exist voluntary portfolio saving alternatives, the so-called APV[58], with provisional objectives, where citizens can invest additional resources which benefit from tax incentives, adding to the compulsory 10% of the salaries to the AFP. These portfolios can be provided not only by the AFPs but also by other financial institutions that are regulated by the Comisión del Mercado Financiero including banks, insurance companies, investment fund managers, and mutual funds management companies.

Figure 3.5. Private individual pension fund savings: a sustainable and virtuous social alternative



Note: Portfolio A, more risky: up to 80% of non-fixed rate instruments (at least 40%); portfolio B, risky: up to 60% of non-fixed rate instruments (at least 25%); portfolio C, intermediate: up to 40% of non-fixed rate instruments (at least 15%); portfolio D, conservative: up to 20% of non-fixed rate instruments (at least 5%); portfolio E, more conservative: up to 5% of non-fixed rate instruments. Portfolio F could be assimilated to a portfolio A risky-portfolio.
Source: Authors' design.

Seeking to maximise returns at the lowest risk profile, there is no legislation to incentivise investment in SDG-compatible projects. Currently, there is no incentive or legislation to motivate at least a portion of the portfolio saving funds to be directed into SDG-compatible initiatives and sustainable investment. The law requires pension funds to maximise investment benefits at the lowest risk for the pensioners to ensure adequate returns on their savings at the time of retirement.

Creating common standards to measure social impact can foster the establishment of profitable and SDG-compatible investment funds. It is worth asking whether SDG-labelled, profitable investment portfolios can be created, without deteriorating the risk-return profile. In fact, many SDG-related investments can also be private-profitable. The main challenge is the establishment of a standard or internationally recognised methodology to measure impact, in this sense how to measure the SDG-compatibility. This would enable investors and managers to tag their portfolios with an SDG-label, allowing the consumers to choose impact-portfolio alternatives if desired.

In brief, Chile is currently in a position where it could pioneer SDG-aligned investment through pension fund savings. More should be done in terms of regulation, hand in hand with other OECD members, to secure neutral profit-risk effects building on international co-operation and peer-to-peer knowledge exchanges. It would be of global benefit to develop an international safety environment to facilitate such imminent social opportunity.

Box 3.3. What is sustainable investment?

Although there is no single or formal, internationally recognised definition for 'sustainable investment', it is commonly associated with investment that generates both business and social returns (where social returns refer for example to sustainable and SDG-compatible energies, industries, and micro-finance) (OECD, 2018[36]).

Initially, modalities of sustainable investment were associated with investments made by NGOs and small foundations, looking for a social impact rather than financial return.

Little by little, that niche evolved: the SDG Agenda, climate change awareness, the pollution of oceans, demand for renewable energies, the danger of losing biodiversity, among others, have changed investors' behaviour. A new type of investor, concerned with social and sustainable development while looking for both private but also environmental returns, emerged. This new generation was more structured, composed of portfolio managers and responsible consumers, mainly associated with the private equity market. Driven by this new demand, the supply responded and evolved. Many firms launched SDG-compatible security instruments, integrating sustainable processes to certify or label their social objectives. McKinsey (2018[37]) estimates the private equity sustainable investment market at USD 300 billion (but still well below the USD 2.9 trillion of global private equity).

Today we are approaching a new and more extensive sustainable investment market, going well beyond private equity. It involves larger actors and many important financial institutions such as banks, insurance companies, and pension funds. Its magnitude could be as significant as the world's financial market itself. Many banks, for example, are launching their own portfolio savings products that claim to be SDG-compatible. Nevertheless, consumers and the market itself could get lost quickly given the multiple initiatives and different measurements that are evolving to present the social impact of these financial products. If the social-impact is not assessed objectively, the market could lose credibility, and its potential could fail to be realised.

The development community should participate in bringing order to and providing norms and methods for this new and massive sustainable investment market. The potential of such a market is huge; these private savings could satisfy SDG funding needs.

3.2. The competitive approach: Chile is in need of further diversification for reducing its exposure to volatility of external financing

3.2.1. Sustainability of growth

Chile's economic success has been primarily driven by the combination of an increasing demand for copper in the Asia-Pacific region and rising copper prices. Nevertheless, the end of the commodity super-cycle[59] and the increasing dependence on Chinese exports has raised growth sustainability concerns.

Productivity and middle-income trap

Scaling-up R&D investment could boost productivity that has grown only marginally since the 2000s. Over the period 2003-17, productivity measured in terms of Total Factor Productivity (TFP)[60] in Chile has grown at relatively low rates, showing an average of just 0.1% per year. This performance is mainly due to the lack of competition in the local markets and, as explained in (OECD, 2018[3]), due to excessive regulations that work as entry barriers to new firms and potential exporters. Support for innovation also remains limited, reaching a rate of 0.4% over GDP compared to a 4% average for the

OECD countries. The (OECD, 2018[3]) argues, in turn, that a permanent increase of public support for business R&D by 0.1% of GDP could boost productivity by 0.5% after ten years.[61]

Diversification and reduced exposure to volatility

While promoting growth in the 2000s, Chile's concentration on copper exports to the People's Republic of China has left the country vulnerable to volatility in its export market. Chile's economic performance was largely build around its copper exports[62]: the rising global demand in copper led by China, and the commodity super cycle of the 2000s have led to impressive growth rates in the country. However, this dual concentration in product specialisation (copper) and export market (Asia-Pacific/China) has increased Chile's exposure towards export portfolio volatility[63].

Continuing its path to diversify its economy, Chile reduces its exposure, or volatility, to its copper exports. Continuing the "Servicification" of its economy and regional integration holds the potential for Chile to increase its productivity, and move up global value chains. This includes improving the supply and sophistication (or added value) of services that can function as inputs in traditional sectors such as agriculture, fisheries, forestry and mining. It could also entail continuing Chile's efforts to attract entrepreneurs and SMEs, particularly in the knowledge-intensive IT sector.[64]

3.2.2. Renewed economic diplomacy

DAC members can continue to support Chile's path to sustainable development beyond instruments of official development co-operation. While co-operation may no longer be subsumed under official development assistance (ODA), partnerships and assistance between DAC members and Chile will continue. The analysis of the financing mix in section 1.2, for instance, has shown that much of the official development finance provided to Chile has been in the form of less concessional loans close to market terms that can continue to be extended between the relevant parties.

More so, a shift from development co-operation to economic diplomacy can help Chile continue its successful growth path.

Regional integration and financing

Chile can build on its strong economic ties and its firm commitment towards international trade. A strong commitment to international trade is a key pillar of Chilean foreign policy since 1992.[65] Chile has in force 28 trade agreements that cover 64 markets, representing roughly 85% of the global economy.[66] Two-thirds of its trade agreements include services related products and Chile is a negotiation party to the 'Trade in Services Agreement (TISA)'.

Several regional organisations in Latin America and the Caribbean aim for wider integration, but economic integration mainly takes place on the sub-regional level. Differences in the level of political and economic development as well as national policies[67] have led to the presence of various regional and sub-regional organisations and trading blocs, creating both synergies and duplications (Table 3.3). It appears that the ambitions and pace of countries to bolster political or economic integration in the region differs across the region.[68]

Table 3.3. Regional and sub-regional institutions in LAC

Organisation	Objective	Constituency
Economic Commission for Latin America and the Caribbean (ECLAC)	Contribute to the economic and social development in LAC; strengthen economic ties	Regional (one of the five regional commissions of the UN)
Union of South American Nations (UNASUR)	Integration of cultural, economic, social and political areas while respecting each members' differences	Regional (all South American countries)
Community of Latin American and Caribbean States (CELAC)	Regional forum (inter-governmental mechanism for dialogue and political agreement)	Regional (all countries in LAC)
Latin American Integration Association (ALADI)	An inter-governmental organisation that promotes regional integration with its final objective to establish a common market in Latin America.	Regional
Common Market of the South (Mercosur)	Customs union with the objective to promote free trade and movement of goods, people and currency.	Sub-regional (Argentina, Brazil, (Plurinational State of Bolivia), Paraguay, Uruguay, Bolivarian Republic of Venezuela) * Chile is an Associate State
Pacific Alliance	Economic integration (gradually moving to free movement of goods, services, capital, and persons)	Sub-regional (Chile, Colombia, Mexico, Peru)
Andean Community (CAN)	Free trade area with the goal of creating a customs union	Sub-regional (Bolivia, Colombia, Ecuador, Peru) * Chile is an associate member
Bolivarian Alliance for the People of Our America (ALBA)	Inter-governmental organisation promoting social, political and economic integration; initially founded by Cuba and Venezuela. Members can trade using the virtual currency "SUCRE".	Sub-regional (Antigua and Barbuda, Bolivia, Cuba, Dominica, Grenada, Nicaragua, Saint its and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Venezuela)
Caribbean Community (CARICOM)	Community of mostly island states consisting of four pillars: economic integration, foreign policy co-ordination, human and social development, and security.	Sub-regional

Note: Selected institutions only.

Chile promotes regional economic integration through the Pacific Alliance and has recently signed new free trade agreements with Argentina, Uruguay and Brazil. Yet, there is fragmentation across the trading blocs in Latin America. Chile, for instance, who is a member the Pacific Alliance, a trading area with Colombia, Mexico and Peru established in 2012, has not joined Mercosur in 1991 in part due to incompatibilities between Chile's single tariff scheme and Mercosur's diversified tariff schedule.[69] Chile, though, is an 'Associate State' to Mercosur since 1996 and has signed a new FTA with the bloc's largest economy, Brazil, in 2018. Whether this will also promote convergence of the sub-regional trading blocs, however, remains open.

Regional development initiatives

Chile benefits from multiple development initiatives in the region. Although Chile is no longer eligible for bilateral co-operation from the European Union, it still benefits through the EU's regional and thematic programmes. The EU, for example, launched the Facility for International Co-operation, a new co-operation mechanisms for engaging with Latin American countries on issues such as climate change, private sector development and good governance. Projects totaling EUR 13 million were signed with Argentina, Chile and Uruguay. Chile, for instance, also benefits from a regional drought information system created through the EU's Euroclima+ programme, an initiative providing technical and financial assistance to climate adaptation and mitigation projects. The EU-LAC Facility for Triangular Co-operation (ADELANTE), through participation in development co-operation and peer learning activities, promotes triangular and South-South co-operation in the region to extend the support for countries reaching their development goals. Moreover, the 'Regional Facility for Development in Transition for Latin America and the Caribbean', an

EU-led initiative together with the OECD and ECLAC, supports high-level political dialogue, regional exchange of best practice and country specific policy reviews and consultation.

Beyond, regional institutions can serve as a platform for DAC members to channel support to Chile. Through partnerships with the regional institutions, DAC members could continue to provide technical assistance to the (sub-)region as a whole and to Chile individually. Such support, for instance through targeted programmes, can focus on implementing social and environmental standards, or facilitate improvements in the business and trade environment. Depending on the status of the partnering institution, support can in principle continue to be count as ODA.

The economic diplomacy continuum

A next step for Chile on its economic diplomacy continuum would be to better exploit the qualitative dimensions of its trade agreements. For example, despite the significant growth of Chilean exports to China that followed the signature of a bilateral trade agreement in 2006 (see Figure 3.5 above), some authors suggest that this has been done to the detriment of the innovation component of such exports.[70]

DAC members, through the large number of international forums in which Chile is also a member, could continue providing tailored technical co-operation to implement reforms to such agreements, and set high-level social and environmental standards that could help Chile fill the pendent social gaps. The EU and the Pacific Alliance, for instance, have recently signed a declaration for stronger co-operation including on areas such as regional economic and financial integration, digital strategies, climate change, and innovation, science and technology.

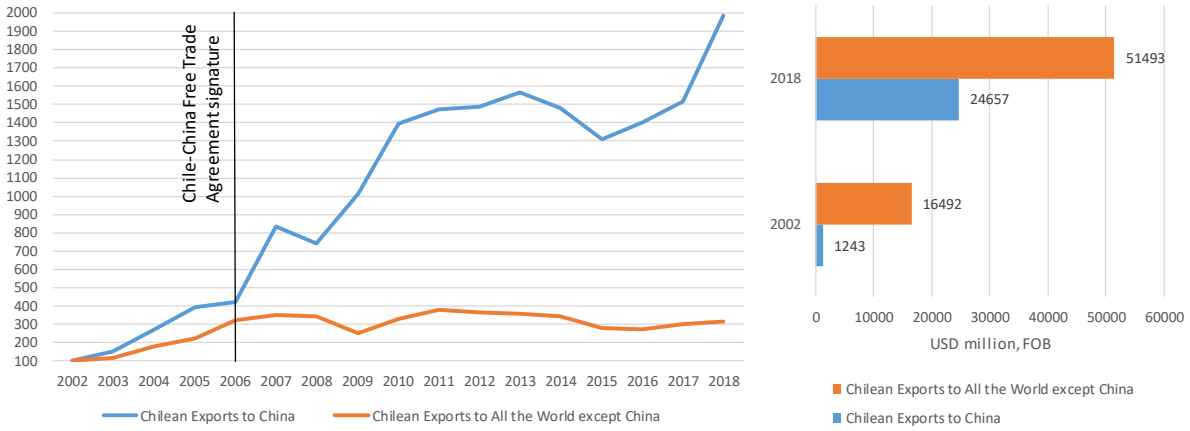
3.2.3. Anticipating graduation: new actors

A more dominant role of China as provider of development assistance in many contexts comes with major shifts in the financing landscape and requires a reflection among DAC members. The methodological paper underpinning the transition finance methodology (Piemonte et al., 2019[1]) refers to the increasing role of China in developing countries as a phenomenon that recalibrates the financial and geopolitical balance in developing countries. China's emergence as a donor also requires that the traditional donor community reflect on how to adapt and reposition its co-operation. Moreover, as shown in the transition finance country pilots of Cabo Verde (Morris, Cattaneo and Poensgen, 2018[38]) and Zambia (Kim et al., 2018[39]), the phasing out of DAC members' ODA after graduating from the LDC and LMIC categories, respectively, created space that was quickly occupied by China. It provided significant amounts of funding but left the countries highly indebted and their future tied to China. What could be expected in the case of Chile? Will China occupy the void left by the DAC community?

Economic ties between Chile and China have increased significantly since the 2000s. Thanks to an international trade agreement signed between Chile and China in 2006[71], China has become Chile's major commercial trading partner. Chilean exports to China totalled 32% of total Chilean exports in 2018 (Figure 3.5), and Chinese imports represent 22% of total imports to Chile the same year[72].

Figure 3.6. Chilean exports to China have increased by a factor of 30 (vs. a factor of 3 to the rest of the world) in 2002-2018

2002=100 (left figure); USD million, FOB, current prices (right figure)



Source: Author's calculations based on Exportaciones por continente y país (Aduanas de Chile, 2019[40]) https://www.aduana.cl/exportaciones-por-continente-y-pais/aduana/2018-12-13/115605.html

Despite their strong commercial links, Chinese investments in Chile are almost non-existent while this is anticipated to change. Foreign direct investment stocks from China totalled USD 684 million in 2017, representing only 0.2% of total FDI stocks, and infrastructure investments were almost nil[73]. Furthermore, external debt of Chinese origin only accounted for 1% of total external debt. And yet, most of the analyses of the international relationships of both countries suggest that this will change. Indeed, several newspaper articles call 2018 as the inflexion year for the Chinese FDI presence[74] in Chile[75]. Moreover, 2018 also marked the opening of a branch office of the Bank of China in Santiago[76]. However, even if both nations have strengthened their ties of friendship and co-operation in recent months[77], the concrete results are yet to be seen[78].

A highly competitive market seems to help explain why Chinese investments in Chile have been relatively small compared to numbers in other developing countries. As described above (see sections 1.2.2 and Box 1.1), Chile does not experience major difficulties in securing credit. Essentially, Chinese lenders must compete with other credit suppliers to satisfy Chilean demand. More so, heavily regulated and transparent bidding processes for major infrastructure projects in Chile require strong knowledge of the local market and act as natural barrier for the entrance of new actors in the market in the short term[79]. However, as Chinese investors are learning more about the local culture and become more familiarised with the bidding processes, it is foreseeable that they will enter the infrastructure sector in the medium term. As for FDI, it can be expected that Chinese firms enter the market in particular in the mining sector through direct acquisition[80] and/or partnerships.

In line with stronger economic ties, the Central Bank of Chile is currently increasing its investment exposure in China. When analysing Chilean investments in China, it is surprising to note that the Central Bank of Chile is currently increasing its investment exposure in China. Indeed, the central bank's Board of Directors just approved a measure allowing its international reserves managers to invest up to 8% of the total investment portfolio – around USD 38 billion – in Chinese financial instruments, up from a previously authorised rate of 3%. In contrast, the board decreased the rate for investments in Europe, from 12% to 4% of its portfolio[81]. Consequently, it appears that the Chile-Sino relationship is strengthening in both directions and that both countries are looking for more business-related exposure.

In brief, lessons learned from the Chilean experience call for principles of transparency and strict impact standards as a natural way to prioritise quality investments. The DAC community should emphasise the positive collateral consequences of good governance and keep insisting on helping developing countries build high-standard regulations that will protect shared interests – in countries across the development continuum. Also, the concept of quality investment should be further explored and new, revamped international agreements facilitating environmental friendly FDI could emerge that also incorporate the challenges faced by Chile to increase value added in its domestic production chains.[82]

3.3. Renewed partnerships: Towards a multi-level co-operation with OECD peers

3.3.1. New channels of co-operation and financing

Considering that Chile had not been relying on ODA for several decades, the impact of transition on the levels of financing of the economy has remained limited. However, graduation has a number of institutional consequences and requires a re-thinking of channels of mutual assistance, influence and communication.

Sharing knowledge and technology beyond ODA

While traditionally funded through ODA, sharing knowledge and technology can be financed through other instruments than development co-operation budgets. Technical co-operation is often considered as a form of development co-operation, financed through official development assistance. Yet, exchanging knowledge and transferring technology is not bound to this financing mechanism. The United States, for example, are partnering with Chile on a range of issues beyond the basis of official development assistance. The US Environmental Protection Agency and the National Science Foundation, among other government agencies, are engaged in Chile and work on topics such as energy efficiency and conservation, wildlife management of protected areas, glacier monitoring and agricultural best practices.

Opportunities for collaboration through multilateral organisations

Chile's move towards high-income status holds opportunities for collaboration beyond development co-operation. Chile is an active member in various international organisations and forums, and its responsibilities and influence have increased over time. In the context of its membership in the Asia-Pacific Economic Cooperation (APEC) organisation, for instance, Chile was invited by Mexico to participate in the G20 leaders' summit in 2012.[83] Chile is also a signature to major international agreements including the G20/OECD 'Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion Profit Shifting', the OECD 'Guidelines for Multinational Enterprises', the UN 'Guiding Principles on Business and Human Rights', and the ILO 'Tripartite Declaration on Multinational Enterprises'.

Chile's membership in international organisations include among others:

- Organisation for Economic Co-operation and Development (OECD)
- World Trade Organisation (WTO)
- Asia-Pacific Economic Cooperation (APEC)
- World Intellectual Property Organization (WIPO)

As member of the OECD, Chile benefits from institutional knowledge and peer to peer learning. Chile, who joined the OECD in 2010, can draw on the OECD's institutional expertise that ranges from the areas of education, labour markets, financial regulation to environmental protection and transport, among others. More so, Chile can engage in the organisation's many forums to learn from and partner with other member countries. In this spirit, Chile also brings to the organisation its own development experiences and

regional expertise. Partnership with OECD countries is of key relevance to Chile as the organisation's members account for 80% of investments in Chile and 60% of its exports.[84]

Partnerships with DAC members can foster exchange and assistance on selected topics. Currently, Chile and the European Union are renegotiating its Association Agreement which has outlined the parties political, co-operation and economic relationships since 2002. As the EU seeks to include improvements in areas such as enforcement of competition law, public procurement as well as labour and environmental standards[85], the current discussions also offer the opportunity to define specific areas of technical co-operation that can promote the implementation of such standards. According to the EU, the updated agreement could further lead to increased co-operation on ocean governance, digital policy and disaster preparedness.[86]

New roles for Chile in development co-operation

Building on its own development successes, Chile is strengthening its role in triangular co-operation, especially in the LAC region, and can go even further. Chile has provided bilateral development co-operation since 1993 and, based on its own development successes, faces increasing demand from its regional neighbours to share its expertise and experience.[87] According to the OECD Repository of Triangular Co-operation Activities, it is engaged in over 21% of all triangular activities since 2012 (Chile has been participating in 145 projects of 679 projects documented, mainly with the European Union, Germany, Japan, Portugal, Spain, Sweden, Switzerland and the United States[88]). According to OECD estimates, in 2017, Chile's international development co-operation reached USD 24 million, down from USD 33 million in 2016. Of this, Chile's contributions to multilateral organisations totalled USD 12.3 million, which were channelled through the United Nations system.[89] Joining forces and promoting triangular co-operation in Latin America and the Caribbean, DAC members and Chile can further leverage DAC members' financing while building on Chile's regional expertise and experiences in development.

Promoting Chile's role as provider of development co-operation can alleviate some of the institutional transformations induced by graduation from ODA. The Chilean International Co-operation Agency (AGCI), the country's main institution responsible for development co-operation, is undergoing significant adjustments following Chile's removal from the list of ODA recipients. DAC members can support the institution's transition from co-ordinating Chile's ODA-like receipts to managing the country's role as provider of development co-operation. This also entails streamlining the country's bilateral co-operation into the development agency; different line ministries have previously financed much of Chile's assistance to other countries.[90] A special review of Chile's development co-operation conducted by the OECD had identified the need for strengthening co-ordination among different ministries, plan and design bilateral and multilateral programmes more strategically, and compile data and evaluate performance more systematically (OECD, 2013[41]).

Eventually, Chile could follow the example set by Korea and become a member of the Development Assistance Committee. Chile, as member of the OECD, is permitted to attend all meetings of the Development Assistance Committee (DAC). Depending on its interests, the country can follow the path set by Korea and could evaluate to join the committee in the medium term. This would further strengthen Chile's role within the international community and raise the voice of triangular co-operation actors among traditional donors.

Learning from ODA graduation - towards a "Graduates Club"?

Dialogue and knowledge sharing between development partners, previous ODA graduates and those expected to graduate in the near future can address common challenges faced when graduating from ODA. While the particular country setting will be distinct, future countries graduating from the DAC list of ODA recipients will likely face similar challenges as those having graduated previously. This suggests institutionalising an exchange between the relevant stakeholders. Creating a "Graduates Club"

between willing parties can help to build on the experiences made during previous countries' ODA graduation. Such a platform could serve various purposes:

- Facilitate discussion between relevant stakeholders
- Sharing knowledge among former graduates as well as donors
- Mobilise partners for addressing the graduates' challenges
- Reflect common challenges experienced during and after ODA graduation
- Continue to monitor assistance and co-operation to ODA graduates

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Notes

[1] (Piemonte et al., 2019[1]), "Transition Finance: Introducing a new concept", OECD Development Co-operation Working Papers, No. 54, OECD Publishing, Paris, https://doi.org/10.1787/2dad64fb-en

[2] As in achieving the Sustainable Development Goals (SDGs), for instance in climate change where Chile is significantly exposed to natural disasters and adverse climate shocks.

[3] It should be noted that this pilot study was conducted and drafted before the street protests that erupted in Chile in October 2019. However, the demands of the protesters (e.g., new policies to address inequalities) confirm the findings of the present study and echo the recommendations herein.

[4] With a Gini Coefficient of 45.5 in 2016 (where the OECD average is 31.6).

[5] Inequalities are increasing and a global problem, as illustrated by protests across continents. The OECD has developed an extensive line of work on inclusive growth and wellbeing that includes considerations beyond GDP and other traditional measures of economic performance. It has also mobilised actors to support the sustainability and inclusiveness of growth. For example, the OECD recently launched at the Biarritz G7 the 'Business for Inclusive Growth (B4IG) Platform' that aims to promote business practices more conducive to inclusive growth. Companies in Chile could follow this movement, and the country work together with OECD and its peers on reducing inequalities and putting in place the environment for more inclusive growth.

[6] The Creditor Reporting System reporting instructions clarify that a triangular co-operation activity can be reported as ODA if its objective is to provide assistance to an ODA-eligible country. It can be counted as ODA even if the resources committed and disbursed are channelled through a non ODA-eligible country (in this case Chile). However, if the non ODA-eligible country receives through the triangular co-operation activity financial and/or technical support that does not directly benefit the ODA-eligible country, then these amounts cannot be reported as ODA.

[7] Chile surpassed the upper middle income country (UMIC) category of USD 12 055 per capita threshold in 2011 – as defined by the World Bank (World Bank, 2019[2]). Note that in PPP, the GNI per capita in Chile is USD 24 250 (2018 data).

[8] Two other countries were also notified that year: Seychelles and Uruguay.

[9] This work will not put in question the GNI per capita criterion, even if future work could include this variable in a revised model.

[10] With a highest level of 7.82% in 2007 and a lowest level of -2.58% in 2009. (Worldwide inflation data, 2019[52])

[11] With a lowest rate equivalent to -4.2% in 2009 and a highest of +8.4% in 2007. (Ministerio de Hacienda Chile, 2010[43]) (Ministerio de Hacienda, Chile, 2018[44])

[12] With peaks of -3 217 USD million in 2007 and +14 190 USD million in 2011. (Banco Central de Chile, 2019[12])

[13] This is mainly due to its world-leading position as copper producer (accounting for one-third of the world's copper supply), but not only – Chile ranked 56th out of 190 economies in the World Bank's Ease of Doing Business Indicator.

[14] Nevertheless, and as it will be highlighted as a pending and crucial challenge to be addressed in the near future to ensure sustainable development, the country is relatively weaker on the adoption of information and communication technologies (ICT) and lags behind on innovation capability (41.3, 53rd).

[15] Chilean public debt consists of external debt issued by "Tesorería" and 'Corfo' and debt engaged with external stakeholders (through sovereign bonds), multilateral organisations and also local debt consisting of bonds issued by 'Tesorería'. https://www.hacienda.cl/oficina-de-la-deuda-publica/preguntas-frecuentes/que-es-la-deuda-publica.html.

[16] 'A debt-to-GDP ratio of 60% is quite often noted as a prudential limit for developed countries. This suggests that crossing this limit will threaten fiscal sustainability. For developing and emerging economies, 40% is the suggested debt-to-GDP ratio that should not be breached on a long-term basis'. https://voxeu.org/debates/commentaries/there-optimal-debt-gdp-ratio

[17] Fitch downgraded the risk classification of the Chilean external debt from A+ to A; Moody's from Aa3 to A1 and S&P from AA- to A+. https://tradingeconomics.com/chile/rating.

[18] The GNI per capita was USD 600 in 1960 and USD 850 in 1969, so ODA represented between 17% and 12% of the GNI in per capita terms.

[19] The GNI per capita was USD 2350 in 1990, that is, ODA represented 1.3% of the GNI in per capita terms.

[20] Surprisingly, Governance and civil society was not a sector prioritised by the DAC community during those years.

[21] Because of availability of data and because the analysis will now move to the more recent years that preceded Chile's ODA graduation, the next chart presents data from 2000 onwards.

[22] Total sector allocable ODA commitments total led USD 1.3 billion in 2010-17 (USD 1.4 billion when considering all administrative costs).

[23] In a sector allocable basis.

[24] Even when 'green', energy projects can show high rates of return on investments.

[25] See paragraphs 18-24 DCD/DAC/M(2016)6; http://www.oecd.org/dac/dac-global-relations/Co-Chair%27s_Summary_LAC-DAC_Dialogue_on_Development_Co-operation.pdf and https://www.emol.com/noticias/Nacional/2016/08/17/817667/Ayuda-internacional-La-lucha-diplomatica-de-Chile-para-mitigar-los-efectos-de-su-graduacion-en-la-OCDE.html

[26] There can be an additional technical co-operation factor within the loans issued to finance specific projects (renewable energy, in particular) not accounted in these figures.

[27] Technical co-operation, as defined by the Development Assistance Committee, "[i]ncludes both (a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and (b) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries (including the cost of associated equipment). Assistance of this kind provided

specifically to facilitate the implementation of a capital project is included indistinguishably among bilateral project and programme expenditures, and not separately identified as technical co-operation in statistics of aggregate flows." For more information, refer to https://www.oecd.org/dac/dac-glossary.htm#TC.

[28] The programme consists of bilateral and triangular approaches of international assistance, and it focuses especially on natural disaster risk reduction, environment, climate change, and social and economic inclusiveness. https://www.agci.cl/index.php/sala-de-prensa/1822-agencias-de-cooperacion-de-chile-y-japon-definen-lineamientos-del-programa-de-asociacion-2018-2019

[29] In the period 2010-18 it has fluctuated from the 16th position (2010) on being able to attract FDIs to 21st in 2018, showing a peak in 2012 (9th place) and its worst performance in 2017 (23rd).

[30] See https://www.worldbank.org/en/news/press-release/2018/10/31/chile-carries-out-key-business-reforms-doing-business-report

[31] More will be explored in the counselling section of this paper.

[32] Note that domestic resource mobilisation refers here only to tax revenues. Other domestic resources, as pension funds, for example, are addressed in Section 3 of this Report.

[33] It could be argued that such a low level of DRM over total external flows is due to exceptionally high levels of FDIs for Chile. The DRM over GDP indicator can then complement and in this case confirm the above proposition.

[34] A profile of the Chilean diaspora is presented in (OECD, 2012[54])

[35]Note by Turkey: The information in the documents with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue". Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in the documents relates to the area under the effective control of the Government of the Republic of Cyprus.

[36] From 1993, until, and including 2004, aid to transition economies in Eastern Europe were recorded in the so-called Part II list or Official Aid.

[37] See section 1.2.1 "Overview of Transition Finance in Chile".

[38] Even if Chile show a peak of ODA loans commitments in 2011-13, what it is here interpreted as a portfolio management choice more than a purely developmental objective.

[39] They are ex-Spanish colonies that secured their independency in the early 1800's (Chile in 1818 and Uruguay in 1825).

[40] As did Seychelles, however, due to its particular status as a SIDS, it will not be benchmarked to Chile in this report.

[41] As highlighted in (Piemonte et al., 2019[1]) and following DCD secretariat estimations, Panama could be eligible to graduate from the DAC list of ODA recipients in 2021.

[42] See CORFO and Conicyt.

[43] This level corresponds to what is pend by LICs/LMICs 'Low-income and lower-middle income countries only spent 0.4% of their GDP on research' see (Ericsson and Mealy, 2019[55])

[44] It should be noted that this pilot study was conducted and drafted before the street protests that erupted in Chile in October 2019. However, the demands of the protesters (e.g., new policies to address inequalities) confirm the findings of the present study and echo the recommendations herein.

[45] Data points selected are based on the Luxembourg Income Study (LIS)

[46] Social Inclusion for Shared Prosperity Development Policy Financing (DPF)

[47] Current USD, 2017, Source: Banco Central de Chile.

[48] Two of the earthquakes figure in the world's top ten list of most destructive quakes (the number 1 most powerful, magnitude 9.5 in 1960 and sixth most powerful, magnitude 8.8 in 2010).

[49] https://www.iadb.org/es/noticias/hoja-de-antecedentes-el-impacto-economico-de-los-desastres-naturales

[50] This study is not exhaustive as it incorporates some, and not the totality, of the sectors that could be involved in climate change consequences. See (Luis Abdón, 2008[45])

[51]

[52] Inequalities is a multidimensional concept. However, this study only considers the income aspect of inequalities, as targeted in SDG 10.

[53] In the case of Korea, when the country graduated in 2000, its Gini coefficient was 32.07 (Kang, 2001[53]) compared with 46.6 in the case of Chile (2017).

[54] See https://economipedia.com/ranking/capitalizacion-bursatil-del-mercado-valores-paises.html.

[55] Employees can also choose to save more than 10% of their revenues, and can do so through AFPs or others financial institutions. These 'additional' saving accounts are called APV (Ahorro Previsional Voluntario).

[56] There are currently six AFP (Administradores de Fondos de Pensiones) in the country. Affiliates can switch pension funds when -- and however frequently -- they want.

[57] A reform law is currently under consideration at the Congress. This 10% could rise to 14% in the following years. For more details see https://www.camara.cl/pley/pley_detalle.aspx?prmID=12718&prmBOLETIN=12212-13

[58] Ahorro provisional voluntario; there also exist the so-called APVC (ahorro provisional voluntario colectivo), that can also be included in the same rationale presented here.

[59] A commodity super-cycle occurs when the prices of many significant primary commodities rise and then fall in concert over an extended period.

[60] Given that the TFP is calculated on the basis of the expansion in GDP not explained by labour and capital, it is very sensitive to employment growth figures.

[61] Notwithstanding the above, and even if it is premature to categorise 2018 data as a break in the general trend, current figures show the first significant increase in productivity (+1.3%) in the country, mainly due to higher education levels shown by new migrants entering the labour market. See (Comisión nacional de productividad, 2018[42]). Indeed, as explained in this report, only 26% of the Chilean labour force has completed secondary education (versus 38% among immigrants), and such a beneficial factor could explain these productivity gains. Box 3.2 below highlights the major challenge Chile still face in education.

[62] See section 1.1.2 “The predominance of copper”.

[63] Ultimately, the decreasing copper demand from China and the decline in copper prices negatively impacted Chile’s exports and economic growth.

[64] Developments in recent years show that Chile has already embraced this path as value added in services increased. Value added in services, in terms of constant 2010 USD, increased by 35.8% from USD 115.34 billion to USD 156.65 billion between 2010 and 2018. Modern services such as “computer, communications and other services” have seen an increasing share in exports from 22% in 2005 to 31% in 2014. The fraction of more traditional services such as “transport services”, in contrast, declined from 61% to 44% over the same period. ‘Startup Chile’, a programme launched in 2010, has already attracted more than 1 000 firms to the Santiago Metropolitan Region by 2015. Based on the Services Trade Restrictiveness Index, Chile outperforms the OECD average in 13 out of 22 categories. An increased diversification can also be observed in other sectors. While the volume of mining exports has remained roughly constant between 2004 and 2015, Chile recorded higher export growth in the manufacturing sector (in particular food products, beverages, wood products, metal products) and in agricultural goods (most notably fruits).

[65] (WTO, 2015[46])

[66] (Chile Subsecretaria de Relaciones Economicas Internacionales, 2019[47])

[67] (de Almeida, 2018[48])

[68] (Ayuso and Villar, 2014[49])

[69] (de Almeida, 2018[48])

[70] (Chelala, 2016[51]) argues that the proportion of total Chile’s high technology products over the total manufactured products exported to China has decreased from 6.6% to 5.9% (in 2006 and 2016, respectively).

[71] This agreement has just been renegotiated in 2019.

[72] https://www.aduana.cl/importaciones-por-continente-y-pais/aduana/2018-12-13/172431.html

[73] All public infrastructure investments in Chile are made through open bidding processes.

[74] A significant transaction made by a Chinese firm in a Chilean company late 2018 has not yet been integrated in the official FDI figures. See footnote 57.

[75] See https://www.publimetro.cl/cl/noticias/2018/11/21/el-desembarco-del-gigante-asiatico-asi-crece-el-arribo-de-firmas-chinas-en-la-industria-chilena.html ; https://www.latercera.com/pulso/noticia/lado-b-la-arremetida-china-chile/426718/.

[76] http://spanish.xinhuanet.com/2018-06/07/c_137237646.htm

[77] https://www.efe.com/efe/america/mundo/pinera-comienza-su-visita-a-china-con-la-firma-del-plan-para-impulsar-las-relaciones/20000012-3959760

[78] https://investchile.gob.cl/investchile-presents-portfolio-of-state-public-works-and-telecommunications-projects-in-china/

[79] Under the 'Corruption Perceptions Index' from Transparency International (2018), Chile ranks 27 over 180 countries – where for example the United States ranks 22/180, Portugal 30/180, Italy 53/180.

[80] https://asia.nikkei.com/Business/Business-deals/China-s-Tianqi-buys-stake-in-lithium-miner-SQM-from-Nutrien-for-4.1-bn

[81] This information was provided by the Central Bank of Chile itself, over the course of meetings that took place in March 2019 with the DCD.

[82] The OECD/DAF is currently working on this issue. 'FDI qualities indicators: investment for inclusive and sustainable growth' [*forthcoming*].

[83] (WTO, 2015[46])

[84] (WTO, 2015[46])

[85] (European Parliament, 2019[50])

[86] (European Parliament, 2019[50])

[87] (OECD, 2013[41])

[88] For further information see here: http://www.oecd.org/dac/dac-global-relations/triangular-co-operation-repository.htm.

[89] OECD (2019), "Chile", in Development Co-operation Profiles, OECD Publishing, Paris, https://doi.org/10.1787/cc704208-en.

[90] (OECD, 2013[41])

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