



Report

# Moving away from aid

## The experience of Chile

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# Acronyms

<b>AGCI</b>	Agencia Chilena de Cooperación Internacional
<b>AGCID</b>	Agencia Chilena de Cooperación Internacional para el Desarrollo
<b>BMU</b>	Bundesministerium für Umwelt, Naturschutz, und nukleare Sicherheit
<b>BMZ</b>	Federal Ministry for Economic Cooperation and Development
<b>COP</b>	Conference of the Parties to the United Nations Framework Convention on Climate Change
<b>DAC</b>	Development Assistance Committee of the OECD
<b>DCI</b>	Development Cooperation Instrument
<b>ECLAC</b>	Economic Commission for Latin America and the Caribbean
<b>EIB</b>	European Investment Bank
<b>EU</b>	European Union
<b>FCO</b>	Foreign and Commonwealth Office
<b>FOSIS</b>	Fund for Social Solidarity and Investment
<b>GCF</b>	Green Climate Fund
<b>GDP</b>	gross domestic product
<b>GEF</b>	Global Environmental Facility
<b>GFATM</b>	Global Fund to Fight AIDS, Tuberculosis and Malaria
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit
<b>GNI</b>	gross national income
<b>GPG</b>	global public good
<b>IADB</b>	Inter-American Development Bank
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>LAC</b>	Latin America and the Caribbean
<b>KfW</b>	Kreditanstalt für Wiederaufbau
<b>JICA</b>	Japan International Cooperation Agency
<b>MDB</b>	multilateral development bank
<b>MIDEPLAN</b>	Ministry of Planning and Social Development Cooperation
<b>NGO</b>	non-governmental organisation
<b>ODA</b>	official development assistance
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OOF</b>	other official flow
<b>SDG</b>	Sustainable Development Goal
<b>SEGIB</b>	Secretaría General Iberoamericana
<b>SME</b>	small and medium-sized enterprise
<b>SSC</b>	South–South cooperation

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<b>TCDC</b>	Technical Cooperation among Developing Countries
<b>TrC</b>	triangular cooperation
<b>UMIC</b>	upper-middle-income country
<b>UNDP</b>	United Nations Development Programme
<b>Unitaid</b>	International Drug Purchase Facility

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# Executive summary

## Introduction

This case study analyses how Chile managed its transition from aid, the type of cooperation the country had expected from development partners since the early 1990s as well as the future of development cooperation beyond official development assistance (ODA).

It is one in a series of four case studies that form part of a larger project that set out to investigate countries' experiences of and lessons from the transition and the graduation from ODA. Calleja and Prizzon (2019) summarise the findings and lessons from this and the other three country studies – Botswana, Mexico and the Republic of Korea – in the report, *Moving away from aid: Lessons from country studies*.

A country graduates from the list of ODA-eligible countries when its annual income per capita exceeds approximately \$12,000 for three consecutive years. After this, every aspect of its international development cooperation is likely to change. In 2014, the OECD estimated that 29 countries are expected to graduate from the list of ODA recipients by 2030 (OECD, 2014). Chile graduated in January 2018. And **many more countries are expected to move away from aid as they approach graduation from ODA**. But although ODA may become less important (and accessible) over time, countries still seek development cooperation in other forms to help them achieve their development aims and contribute to the global agenda.

This report looks at what we can learn from the experience of Chile – a country that has already experienced the full transition from aid, de facto completing this process with the formal graduation from the list of ODA-eligible countries in January 2018. The Chilean government and its development partners have already explored options to collaborate beyond ODA-financed programmes. Chile has

played the dual role of a recipient and a donor of development assistance, moving from a net recipient of development assistance in the early 1990s to being both a recipient and donor in the late 1990s.

This report is informed by a combination of data analysis, literature of main academic and policy documents, and semi-structured interviews with government officials and development partners in Santiago (gathered during a week in December 2018) and over the phone.

Our analysis was not intended to evaluate the approach of the Chilean government and of its development partners. Rather, we sought to identify lessons from their experience that might inform other countries 'in transition' and their development partners in the articulation of their own strategies to sustain development outcomes and foster policy dialogue within a renewed type of partnership.

## Lessons from the experience of Chile and of its development partners

Chile's development assistance landscape has some unique features – its low dependency on aid flows and transition to democracy in the early 1990s, which fully restored its relationships with 'developed' countries. However, an understanding of the strategy and approaches of the Chilean government and of its development partners during the country's transition from aid and beyond ODA relations offers useful insights for other countries (recipient and donor alike) that are starting or undergoing a similar trajectory.

The case of Chile provides a series of lessons – first, in managing the transition and graduation from aid at different stages ('Managing the transition from aid'). Second, in the approach applied by development partners while development assistance starts falling



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(‘Cooperation with development partners’). Finally, in expectations for future bilateral and multilateral cooperation after graduation from the list of ODA-eligible countries (‘Cooperation beyond ODA’).

### **Managing the transition from aid**

**Governments may want to have a long-term plan for the transition from aid.** During the late 1990s, the Chilean government actively sought new ways of engaging with donors to maintain relations as it transitioned from aid and as it realised that its future graduation from ODA would alter its relationships with development partners. This changed in the 2000s, when Chile’s sustained economic development became a priority for the government as it sought to attain high-income status. Along with the marginal contribution of aid to the government budget, Chile’s role as a recipient was far from prominent and led to the late realisation of and relative ‘unpreparedness’ for the implications of its ODA graduation.

**Governments may want to establish an institution that leads and manages development cooperation flows and projects. This institution could coordinate across government, develop expertise and have a dual mandate to manage the country’s transition from aid.** The creation of the Chilean Development Cooperation Agency (AGCID) played a pivotal role in Chile’s transition from aid recipient to donor and in the creation of innovative mechanisms. In 2005, the responsibility for AGCID moved from the Ministry of Planning and Social Development to the Ministry of Foreign Affairs. This marked a shift in priorities for the Chilean government, which was increasingly focused on becoming a fully fledged donor country, with development cooperation explicitly being included among the pillars of foreign policy.

**Governments should consider innovative modalities for South–South cooperation (SSC).** Chile experimented with new approaches to SSC, including the Chile-Mexico Fund, which ensures committed resources, strategic planning and the flexibility to respond to emergencies, as well as the Chile Fund, which receives resources from airport taxes for passengers coming in and out of Chile (\$2 each). The Chile Fund is managed

by the United Nations Development Programme (UNDP) and funds Chile’s broader Unitaid engagement.

**NGO capacity should also be supported in the transition from aid.** Chile’s NGOs experienced the graduation from aid far earlier than the government; by the 1990s, the return of democracy saw donors increasingly allocating funding to the government in efforts to support the country’s new democracy. While NGOs continued to receive some external resources, the levels of support declined drastically and contributed to an early funding crisis.

### **Cooperation with development partners**

**Governments and donors could expand technical assistance in specific areas during the transition process, leveraging it to learn from other countries and their approaches.** A country like Chile has sufficient fiscal capacity to support its national budget and its investment programmes, but its economy still suffers from a series of structural vulnerabilities that would benefit from partners’ development cooperation. Technical assistance (not financial assistance) in areas with structural vulnerabilities is highly valued and in demand across the Chilean government. Technical assistance should foster learning from the experience of those countries that have already managed similar projects and developed expertise. This is also the reason why OECD membership is highly prized: peer-to-peer learning is the organisation’s primary mandate.

**Development partners and international organisations should communicate transition plans in advance and across government departments, informing them when their ODA eligibility will end.** It was only in the early 2010s, when the European Commission announced Chile was no longer eligible for the Development Cooperation Instrument (DCI), that the Chilean government realised the implications of transition from aid. We understand there was no formal communication about the graduation from the list of ODA-eligible countries, which came as somewhat of a surprise to the Chilean government. The eligibility criteria for some funds is also open to interpretation (e.g. for the Green Climate Fund being a developing country, which is not clear enough for the case of Chile).

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**Financial assistance from development partners can continue even beyond ODA.** Some donors continue their development programmes in Chile, even if not ODA-eligible. Japanese development cooperation, through the Japan International Cooperation Agency (JICA), will operate in Chile independently from ODA eligibility. This is because the Japanese government recognises that there are a few areas in which Chile could benefit from development cooperation and from a strategic partnership with Japan. Having initially left Chile when the country graduated from the DCI in 2013, the EU later re-established development cooperation programmes under the new Regional Facility for Development in Transition.

**Governments and development partners could leverage the multilateral system when ODA is no longer an option.** Several development partners ceased to negotiate new development cooperation programmes, or simply did not renew them, once the country was no longer eligible for ODA. Despite this, Chile remains eligible for lending and support from multilateral development banks. Although these flows are not accounted as ODA, they are often still at more favourable conditions than market rates. Chile benefited from the expertise of the staff of multilateral development banks also by paying directly for their services (reimbursable or fee-for-service assistance), ranging from the support to help the country become a regional hub (e.g. with the Regional Research and Development Centre,

partnership between the World Bank and Chilean government) to the global public goods agenda, especially on climate change.

### **Cooperation beyond aid**

**Governments may leverage regional programmes and triangular cooperation as instruments for partnerships beyond ODA flows.** While direct bilateral development assistance to Chile has been phased out by several development partners, Chile can still indirectly benefit from it via regional development cooperation programmes and triangular cooperation. Chile is an active player in both these areas.

**Participation in international organisations and forums can be a key means of maintaining and developing post-ODA relations, especially on issues such as climate change.** The Chilean government has promoted a strategy towards multilateralism since the transition towards democracy and this has become more prominent in recent years. Joining the OECD in 2010 also offered opportunities for peer learning and knowledge-sharing in many domains. Together with Costa Rica, Chile plans to host the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP25) in December 2019. Development partners should support Chile to become a regional leader in areas like renewable energy, climate change, waste management and circular economy.

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# 1 Introduction

## 1.1 Why this report

Over the past decade most developing economies have achieved strong and sustained economic growth. Some have moved rapidly up the income per capita ladder, particularly into the upper-middle-income country (UMIC) bracket (above \$4,000 annual income per capita).<sup>1</sup> Typically, these are economies that have strengthened their macroeconomic management, played a stronger and more visible role in global policy, diversified their financing sources and received less and less external development assistance (or ceased to benefit materially from it).

When a country's income per capita<sup>2</sup> exceeds \$12,000 for three consecutive years, it is removed from the list of countries eligible for official development assistance (ODA), as per the policy set out by the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC). While this 'ODA graduation' does not mean donors must no longer provide development support to these countries, it does mean that their programmes cannot be counted towards ODA targets. At the same time, against a backdrop of growing scrutiny on public spending – particularly in relation to the provision of development assistance to wealthier countries – aid budgets in many donor countries have been cut and sometimes reprioritised towards poorer countries.

Several countries are expected to graduate from ODA. The OECD estimates that 29 countries will graduate from the list of ODA recipients by 2030 (OECD, 2014). However,

we know little about how countries that have experienced or have started the transition and graduation process have managed it. This is so particularly in terms of planning, implementation and financing of development projects, to ensure development results are sustained and expanded when ODA declines or is no longer provided. We also have little evidence about how development partners should support countries that are transitioning from aid and how these countries could engage in global dialogue when ODA falls or is no longer an option.

This report answers these questions by looking at the experience of Chile, one of four country case studies. The country graduated from the list of ODA-eligible countries in January 2018. The other three countries studied are Botswana, Mexico and the Republic of Korea. Findings and lessons from across all four studies are summarised in the summary report (Calleja and Prizzon, 2019).

## 1.2 What we mean by transition from aid and graduation from official development assistance

Throughout this report, we use the terms 'transition' from aid and 'graduation' from ODA. 'Transition' from aid is used to describe the period during which donors start reducing their programmes in a recipient country because that country is considered less in need of aid. This is often associated with higher per capita income, rather than being a decision to withdraw from a country because of political or security reasons (see Jalles d'Orey and Prizzon, 2019).

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1 The number of UMICs has risen: in 2005, 39 countries were classified as UMICs; in 2017, this number rose to 56 (World Bank, 2019).

2 Calculated according using the World Bank GNI per capita Atlas method.

‘Graduation’ from ODA, which happens in the late stages of the transition from aid, refers to the point at which a country is no longer included in the DAC list of ODA-eligible countries.

Three points are worth noting. First, graduation from the list of ODA-eligible countries does not mean a country no longer receives official development assistance. Donors may choose to continue allocating funds to countries after graduation. It does mean, however, that a donor cannot count these funds against their ODA as a proportion of gross national income (ODA/GNI) target.

Second, graduation from the list of ODA-eligible countries is only one conceptualisation of ‘graduation’. Graduation from multilateral development banks (MDBs) and vertical (climate

and health) funds are driven by criteria other than only income per capita (Box 1).

Finally, we refer to transition from aid and graduation from the list of ODA-eligible countries primarily from the perspective of recipient country governments and not from those of civil society organisations.

## 1.3 About this case study

### 1.3.1 Research questions

With many countries moving away from aid and the graduation from the list of ODA-eligible countries, governments should learn from the experience of other countries that already went through this trajectory to ensure development results are maintained and sustained. Furthermore, development partners

#### Box 1 Different conceptualisations of ‘graduation’ and funding eligibility criteria

Each organisation usually sets its own criteria triggering and defining eligibility for and graduation from funding. The policy that informs graduation from the list of ODA-eligible countries is the only one that is based solely on income per capita – i.e. when a country’s income per capita meets the high threshold for three consecutive years.

**Multilateral development banks.** The Inter-American Development Bank does not have a policy of graduation from its assistance. This decision reflects the institution’s cooperative nature and the largest voting power in the hands of regional borrowing countries. In the case of the non-concessional arm of the World Bank (the International Bank for Reconstruction and Development, IBRD) the current policy on graduation is highly flexible, in part because it is widely recognised that the income threshold is an imperfect proxy for a country’s economic and social development. Two substantive criteria were introduced to assess and quantify these conditions: (1) a country’s ability to access external capital markets on reasonable terms; and (2) a country’s progress in establishing key institutions for economic and social development (Prizzon, 2016). Eligibility for IBRD funding also determines if a country can receive assistance from the Global Environmental Facility (GEF).

The graduation policy from regular assistance (or non-concessional lending) from MDBs should not be confused with changes of the analytical classification (i.e. low income, middle income and high income). This classification reflects income per capita only and does not affect (at least, not directly) eligibility for funding and its terms and conditions.

**Vertical health funds,** like the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), have specific eligibility criteria largely based on income per capita, usually focusing on low-income countries, but with exceptions for UMICs whose disease burden is high.

**Other institutions have loose criteria** – that is, eligibility may be based on the recipient being a developing country as defined by, for example, the Green Climate Fund.

Note: As this report focuses on UMICs, this box reviews the approaches to graduation from non-concessional assistance. For a review of bilateral donors and EU approaches to transition and graduation see Jalles d’Orey and Prizzon (2019).



should review the type of approaches countries ‘in transition’ would demand during the phase, again to maximise the impact and results of falling aid resources. Finally, with ODA flows declining and often no longer being an option after graduation, governments and development partners should map expectations and modalities regarding future bilateral and multilateral cooperation to continue engaging in global policy dialogue.

Box 2 sets out the research questions that guided this project and the country case studies. We respond to these in turn in Chapter 5 of this report.

### 1.3.2 Case study selection: why Chile?

We chose Chile as one of our case study countries for a number of reasons. Chile is an example of a country that has already gone through and experienced the full transition from aid, de facto completing this process with the formal graduation from the list of ODA-eligible countries in January 2018. Moreover, the government and development partners have already explored options to collaborate

beyond ODA-financed programmes, making it a good case for understanding the immediate implications of graduation for post-ODA relations. Chile has also played the dual role of a recipient and provider of development assistance, shifting from a net recipient in the early 1990s towards a dual role as a recipient and provider in the late 1990s.

Our selection of case study country was also influenced by pragmatic considerations. For example, we looked for countries in which we had good access to local networks, where elections had taken place at least six months before our visit, and that were not in the middle of budget preparations so as to maximise the availability of government officials for meetings and interviews. See Calleja and Prizzon (2019) for further details on case study selection.

In this report, we do not discuss Chile’s current eligibility and classification for multilateral funding in detail. Generally, Chile is eligible only for non-concessional assistance (which is not counted as ODA but it is often at terms that are more favourable than the market rates). For more detail on this, see Box 3.

#### Box 2 Detailed research questions

1. Managing the transition from development assistance, i.e. when development partners are phasing out their development assistance
  - a. How have countries ‘in transition’ planned (and how will they plan) to manage, finance, sustain and broaden development results? To what extent are countries ‘in transition’ continuing or updating development programmes and in which policy areas?
  - b. How has transition affected well-established relations with development partners (multilateral and bilateral donors)?
2. Cooperation with development partners
  - a. What needs and requirements do countries ‘in transition’ have in managing their sustainable development independently from development assistance, for example with respect to planning, implementation and financing?
  - b. What forms of cooperation do countries ‘in transition’ consider helpful in successfully managing this phase of graduation and beyond ODA and in which areas?
3. Cooperation beyond aid
  - a. What do countries ‘in transition’ expect from their development partners regarding the future extent and modalities of bilateral and multilateral cooperation?
  - b. Which forums of global exchange and cooperation do they consider relevant and which global policy areas and global public goods appear most suitable for increased cooperation?

Boxes 4 and 5 illustrate the key elements of the economic, political and governance, and social and human development contexts in Chile. These factors can influence decisions about aid volumes, allocation and modalities – from the perspective of both the government and its development partners. For more

information about the political economy framework considered for this report see Prizzon et al. (2016b) and Prizzon and Rogerson (2017). We elaborate other dimensions including the drivers of changes in volumes and allocation of external development assistance in Chapters 3 and 4.

### **Box 3 Chile's classification and eligibility criteria for multilateral funding**

The World Bank reclassified Chile as a UMIC in 1993, a few years after donors resumed programmes with the Chilean government following democratisation. Chile became a high-income country in 2012 based on World Bank classification – the criterion for graduation from the list of ODA-eligible countries – five years before the target set (i.e. 2018) in its 2010 national strategy *Chile País Desarrollado Más Oportunidades y Mejores Empleos*.

Chile is still eligible for IBRD funding at full terms. No graduation policy applies to the case of the Inter-American Development Bank (IADB), the other major multilateral development bank operating in Chile. Chile continues to be eligible for GEF assistance based on its eligibility for IBRD funding.

Chile transitioned from GFATM support to a government-supported programme on HIV/AIDS in 2008. Chile benefited from GFATM assistance because of its high disease burden of HIV/AIDS, despite being a UMIC at that time.

### **Box 4 Main elements of the political and social context context in Chile**

Chile underwent a democratic transition in the early 1990s. With the election of President Patricio Aylwin Azócar in 1989, Chile formally started its transition process towards democratisation of its institutions. Most development partners stopped their direct development programmes with the government during the the government of General Augusto Pinochet. The transition to democracy marked a new phase of engagement with development partners.

**Chile's social indicators have improved but disparity across the country (rural–urban) and income inequality persist.** Since the early 1990s, social development indicators have improved – life expectancy at birth rose from 74.7 years in 1993 to 79.7 in 2017 (UNDP, 2018) and the average expected years of schooling increased from 12.1 in 1993 to 16.4 in 2017. While income inequality declined over time (a Gini coefficient of 0.480 in 2009 fell to 0.454 in 2015; see OECD, 2018b), it remains high compared to other OECD members and countries in the region, with very little difference (less than 5%) between pre- and after-tax Gini coefficients (OECD, 2018c). Poverty has fallen too, from 36% of population in 2000 based on the national poverty line to 8.6% in 2017 (World Bank, 2019). Before the transition to democracy, 11.7% of the Chilean population in 1987 lived below the absolute poverty line of \$1.90/day (in purchasing power parity terms). This share fell dramatically over time, in 2017 was 0.7% of the population. Yet, poverty rates are still higher than the OECD average and they differ significantly across Chile's diverse regions (OECD, 2018c).

**Chile is highly vulnerable to the impacts of climate change** across the nine vulnerability criteria established by the United Nations Framework Convention on Climate Change (Holmes et al., 2016). These include low coastal level throughout its territory, arid and semi-arid areas; areas prone to natural disasters; areas prone to drought and desertification; and areas with fragile ecosystems, including mountain ecosystems.

### Box 5 Main elements of the economic context in Chile

Chile has experienced strong economic growth, particularly since the 1990s, and weathered the global financial crisis. Between 1986 and 1997, Chile's gross domestic product (GDP) grew at an annual rate of 7.6%, slowing to 3.5% in the following decade (World Bank, 2011: i). The era of the dictatorship of General Augusto Pinochet is often credited with jumpstarting Chile's 'economic miracle' through the implementation of an orthodox neoliberal reform programme aimed at economic liberalisation and regulatory changes to increase trade and inward investment (Edwards and Lederman, 1998; Jadresic and Zahler, 2000; Davis-Hamel, 2012). More recently, Chile's GDP growth fell from 6.1% in 2011 to 1.5% in 2017 (World Bank, 2018), but its economy still grew at a faster pace than most advanced and emerging economies – especially during the global financial crisis (2007–2008). The World Bank credited Chile's economic performance to a strong macroeconomic framework started in the 1980s (World Bank, 2017). If we exclude small island states, Chile is the fourth richest country in the Americas by income per capita, after the United States, Canada and Uruguay.

Since 1990, Chile has become a hub for investment in the continent. Chile's economy has opened to international investment since 1990. In 2015, 'Chile's inward stock of FDI [foreign direct investment] was among the highest in the OECD (around 80% of GDP)', positioning it far above the OECD average of 40% (OECD and UN, 2018: 42).

Improving productivity and competitiveness are key challenges. Chile's strong economic performance was fuelled by high commodity prices, notably copper. In recent years, declining copper prices 'have exposed underlying challenges in productivity and diversification' (World Bank, 2017: 1). Such trends have led the government to gradually shift the economy from reliance on commodities to 'a more knowledge-and-technology-intensive model' (ibid.).

Chile has a small public sector – and a large role for the private sector. Except for a fall in 2009, Chile's tax-to-GDP ratio has remained around 20% since the 1990s, far lower than the OECD average (34.3% in 2016) (OECD, 2018a). Government spending is correspondingly low. For example, in 2016, Chile's government spending was the second lowest of all OECD countries (approximately 25% of GDP), behind Colombia (invited member to the OECD at the time of writing this report). Such low tax and public expenditure ratios, compared to the OECD average, reflect a market-driven economic model, with education and health largely delivered by the private sector.

### 1.3.3 Methodology

We applied a combination of quantitative and qualitative data analysis and qualitative methods (semi-structured interviews) to tackle the research questions. We applied a similar methodology across the four country case studies to enable comparability of findings.

We first analysed and summarised strategy documents from the Chilean International Development Cooperation Agency (Agencia Chilena de Cooperación Internacional para el Desarrollo, AGCID) and the Chilean government, both in Spanish and English, OECD reports – including the DAC Special Peer Review of Chile (see references), and contributions from the UN

Economic Commission for Latin America and the Caribbean (ECLAC).

Next, we gathered and analysed data on vertical, horizontal and triangular cooperation based on AGCID reports and OECD sources, including preliminary studies on ODA graduation (AGCID and UNDP, 2017; and CEPAL, 2018). Based on a framework elaborated in Prizzon et al. (2016b), we then analysed the main economic, governance and social development factors that influenced decisions about the volumes and allocation of external assistance. These factors are reflected in Boxes 4 and 5 and inform our review in Chapters 2–5.

Finally, we conducted semi-structured interviews with 34 informants from across central and line government agencies, bilateral development partners, multilateral agencies, multilateral development banks and civil society organisations, to fill any gaps in our desk-based review and to triangulate information. We conducted 30 interviews in Santiago between 12 and 18 December 2018, and four phone interviews or email exchanges between December 2018 and February 2019. See Annex 1 for a list of those interviewees who agreed to their names being published.

## 1.4 Structure of the report

In this report, we identify four key phases of Chile's transition from aid and towards graduation from ODA. We acknowledge that institutional development and trajectories of international cooperation to and from Chile have not followed a linear path, but with an inevitably high degree of simplification, we chose this approach for illustrative purposes. The four phases are as follows:

1. **In the early 1990s, Chile was a recipient of development assistance**, with development partners partly funding and supporting the process towards the restoration of its democracy, institution-building and -strengthening and the expansion of social development programmes that suffered cuts during the Pinochet regime.
2. **In the late 1990s and early 2000s, Chile started playing a dual role as both a recipient and cooperation provider**. Chile continued to benefit from development cooperation programmes, but the country expanded its technical and financial cooperation to other developing countries, mainly in Latin America.
3. **In the mid to late 2000s, Chile deepened its programme as a development cooperation provider**. Horizontal and triangular cooperation were strengthened and further expanded – especially the number of activities and programmes. Development partners

started phasing out their development cooperation programmes.

4. **In the 2010s, Chile moved further away from aid as a recipient and graduated from the list of ODA-eligible countries**. Chile was classified as a high-income country in 2012, and in January 2018, was no longer included in the list of ODA-eligible countries. Since then, concessional assistance for development programmes from bilateral and multilateral partners cannot be counted as ODA.

This report is structured as follows:

- Chapter 2 examines the evolution of the aid management structures of the Chilean government, its priorities and strategies for its transition process away from aid.
- Chapter 3 analyses whether and how official development finance received by Chile evolved (its volume, main sources, activities and priorities) since development partners re-established their programmes directly with the Chilean government in 1990 following the return to democracy.
- Chapter 4 reviews the main characteristics and the evolution of both horizontal (or alternatively South–South) and triangular cooperation since the early 1990s.
- Chapter 5 builds on this extensive analysis by distilling lessons on the transition from aid and graduation from the list of ODA-eligible countries for the case of Chile, aiming to address the research questions set for this study as outlined in Box 2.
- Chapter 6 summarises the main findings of the analysis and lessons from the experience of the Government of Chile in its transition from aid. We hope that these lessons will be useful for recipient country governments, and their development partners, that are beginning or progressing towards ODA graduation. This is to ensure development results are sustained, the impact of falling assistance from development partners is maximised and new forums and modalities for policy dialogue beyond ODA flows are identified.



## 2 Evolution of Chile's aid management structures

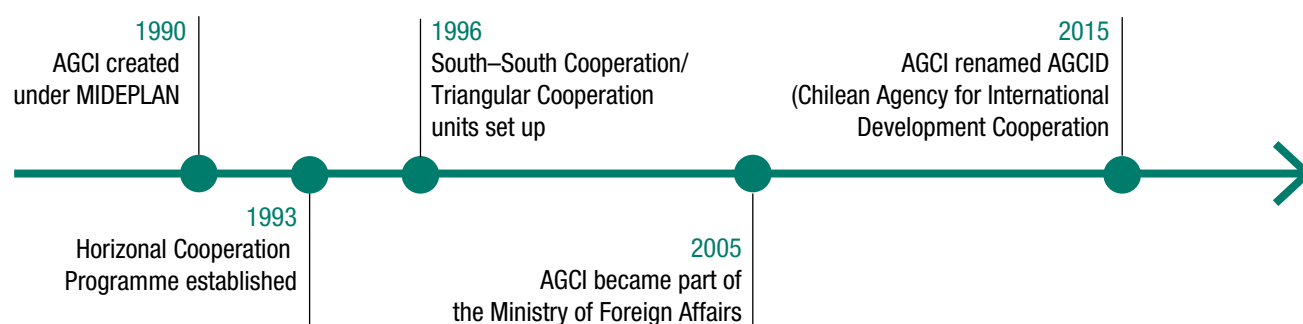
In 1990, Chile institutionalised its development cooperation programme with the creation of its first ever development agency, the Chilean International Cooperation Agency (Agencia Chilena de Cooperación Internacional, AGCI). AGCI was established partly as a response to renewed relations with bilateral and multilateral actors, who were scaling up their engagement with Chile to support the newly elected democratic government (Egaña-Baraona, 1991; see also section 3.1).<sup>3</sup> This was a key milestone in the evolution of Chile's institutional structures for managing development cooperation (see Figure 1).

AGCI was initially located under the Ministry of Planning and Cooperation (MIDEPLAN), which was responsible for domestic development planning. This institutional arrangement

reflected the role attributed to international development cooperation in promoting Chile's own development.<sup>4</sup> As the main institutional actor for development cooperation, AGCI was responsible for coordinating actions among key players within the Chilean government including the Ministry of Foreign Affairs, MIDEPLAN and the Ministry of Finance.

Alongside the creation of AGCI, the Chilean government established the Fund for Social Solidarity and Investment (FOSIS), as an agency under MIDEPLAN, to support Chile's development efforts at home. The main objective of FOSIS was to 'work urgently to eradicate poverty and diminish social vulnerability in Chile' by supporting the poor and vulnerable segments of society. FOSIS would collaborate with AGCI to channel investments received

**Figure 1 Evolution of Chile's institutional and management structures for international development cooperation**



Note: The changes reflected in this graphic are major restructurings only; it is common for agencies to undergo internal changes and restructurings more regularly as political circumstances change.

Source: Authors' elaboration based on academic and policy evidence reviewed.

- 3 The agency was formalised with the passing of Chile's first legislation on international development cooperation which was adopted in 1990.
- 4 AGCI's early work focused on 'seeking and receiving resources from the OECD-DAC countries, as well as allocating these resources to projects that would promote Chile's development' (UNSSC, 2013: 36).

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by AGCI into ‘projects specifically designed to overcome poverty and marginality, through community organizations, NGOs, municipal government, and other public agencies’ (Loveman, 1991: 47).

From its inception, AGCI not only managed development cooperation inflows (or vertical cooperation) but also coordinated Chile’s small but growing portfolio of horizontal (or South–South cooperation) outflows. By 1993, a Horizontal Cooperation Programme was formally established within AGCI to share Chile’s development experience with countries within the region (UNSSC, 2013). While Chile was a net recipient of ODA in the early 1990s, the dual role of the agency showed Chile’s early intentions to support other developing countries.

By 1996, the rising importance of Chile’s outward cooperation was signalled by a change in AGCI internal structure with the creation of the South–South Cooperation/Triangular Cooperation (SSC/TrC) units. Established under the purview of AGCI’s Horizontal Cooperation Programme, the SSC/TrC units became responsible for ‘interacting with other countries through international cooperation projects and other activities, as well as providing resources and expertise to countries of equal or lesser development’ (UNSSC, 2013: 39). As part of these efforts, the SSC/TrC had separate units responsible for engaging with international

cooperation partners, on early dialogue into triangular cooperation which formally began in 1998.<sup>5</sup>

In 2005, AGCI was relocated to the Ministry of Foreign Affairs, reflecting shifting priorities and increased focus on horizontal and triangular development cooperation as a tool for foreign policy. This change was driven by the evolution of Chile’s development cooperation, which was moving towards an approach ‘based more on the country’s foreign policy than on the national social policy designed by MIDEPLAN’ (UNSSC, 2013: 39). The reorganisation institutionalised Chile’s strategy to use development programmes, particularly expanding horizontal and triangular cooperation, as a foreign policy tool and a way to enhance engagement with neighbouring countries (Gutiérrez and Jaimovich, 2017).

Over the following decade, the increasing importance of Chile’s outward cooperation led the agency to be renamed the Chilean Agency for International Development Cooperation (AGCID) in 2015. The change solidified Chile’s status as an emerging donor, particularly as the country reached high-income status and continued to expand its outward cooperation.<sup>6</sup> The change also aligned with the 2030 Agenda for Sustainable Development that was approved the same year.

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5 The SSC/TrC functional areas were also responsible for coordinating activities with other line ministries, municipalities, academia and the private sector.

6 From here onwards for ease of reference, we will refer to the AGCI by its newer acronym, AGCID, although the agency was not renamed until 2015.

# 3 Development cooperation to Chile and strategies since 1990

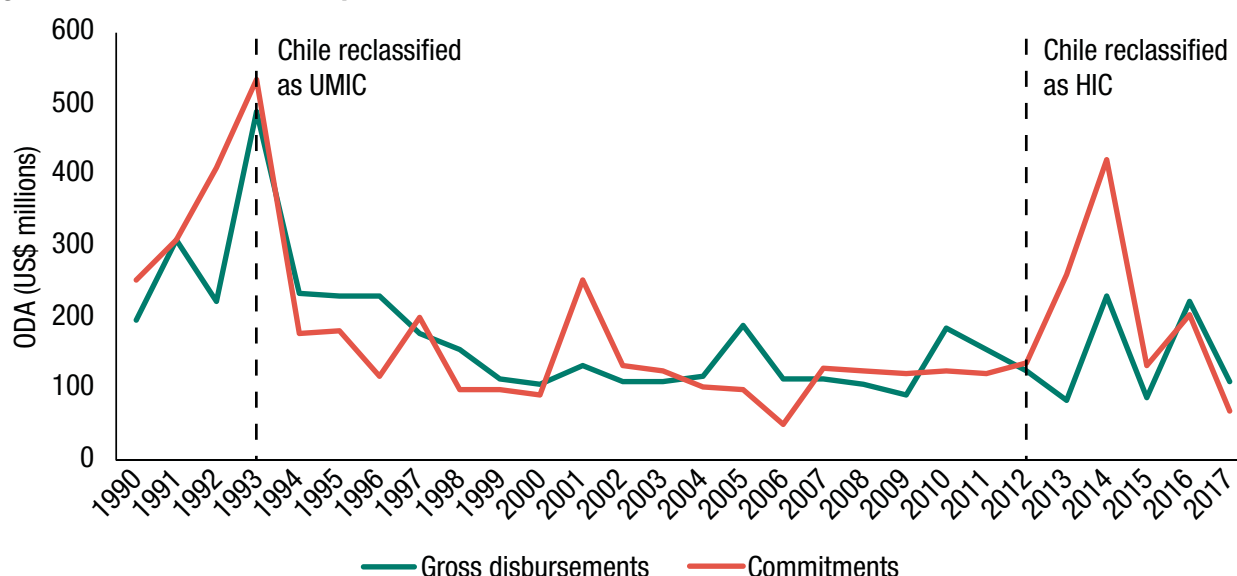
This chapter maps key changes in Chile's development programme – in particular aid volumes relating to inward and outward flows, and changes to the country's relationships with development partners. By doing so, we aim to contextualise Chile's transition and graduation from development assistance and learn from its experience. The analysis starts in 1990 with Chile's return to democracy and ends in 2018 when Chile graduated from the list of ODA-eligible countries.

This chapter provides a basis for drawing lessons from Chile's experience, particularly in terms of how donors can support and collaborate with partner countries throughout the transition process; our findings are further elaborated in Chapter 5.

## 3.1 Early 1990s

ODA inflows to Chile more than doubled in the early 1990s as donors returned following the country's transition to democracy (Figure 2). ODA had slowed during the time of Chile's military dictatorship (1973–1990) because of concerns about human rights violations; overall ODA levels remained relatively flat throughout the Pinochet era with most of the funding channelled primarily via non-governmental organisations (NGOs) (see Box 6). In the 1990s, after Chile's transition to democracy, ODA more than doubled from \$196 million in 1990 to \$489 million in 1993 as donors sought to support the new democratic regime

**Figure 2 Gross official development assistance to Chile from all donors**



Note: US\$ millions, constant 2016 prices. HIC, high-income country; UMIC, upper-middle income country.  
Source: Data compiled from the OECD's DAC2a and DAC3a datasets, accessed February 2019.

(see Figure 2). Almost half of the increased ODA to Chile in 1993 (\$233 million) was driven by development assistance from the US, with large commitments also allocated from France (\$81 million)<sup>7</sup> and Germany (\$75 million). Despite the increased inflows, ODA to Chile remained small relative to gross national income (GNI) at less than 0.4% (Figure 3).

Rising ODA flows were largely channelled towards social development, a key priority for the Chilean government. This focus on social development was, at least in part, a response to increases in inequality and poverty in Chile, both of which had deepened as a result of neoliberal policies and accompanying cuts in social spending under the Pinochet regime (Ffrench-Davis, 2002; Diaz, 2010). Indeed, economic reforms implemented over the period had resulted in 'high unemployment,

a drop in real wages and increased poverty and income inequality' for the Chilean population as the government cut spending to social sectors including education and health (Davis-Hamel, 2012: 83). Patricio Aylwin Azócar's new democratic government sought to shift the composition of public spending to increase social expenditures and transfers to lower-income groups. Donors supported these efforts by allocating a large share of aid to support social sectors and poverty reduction (38% of development resources). Support was focused towards education, health and housing, and on funding FOSIS programmes (Egaña-Baraona, 1991), which at least initially was entirely funded by international development cooperation (CIC, 1993).

The Chilean government also used ODA to further the economic progress made over the

#### **Box 6 Chile's non-governmental organisations and the transition from aid**

Chile's non-governmental organisations (NGOs) played an important and specific role as recipients of development cooperation and implementers of development programmes throughout the Pinochet regime. Yet Chile's NGOs experienced transition from aid far earlier than the government.

In previous decades, most donors allocated ODA through NGOs to avoid propping up the military dictatorship. At the time, NGOs in Chile were seen to maintain a 'critical distance' from the Pinochet government and created a space in which opposition researchers and activists could work and support the socioeconomic needs of the poor (Lambrou, 1997).

However, the restoration of democracy in 1990 led to an abrupt shift in donor allocations, with many donors, including the US, providing additional aid to the new democratic government (Meyer, 2014). This meant that international assistance to Chile was increasingly allocated through the public sector as funding to NGOs declined.

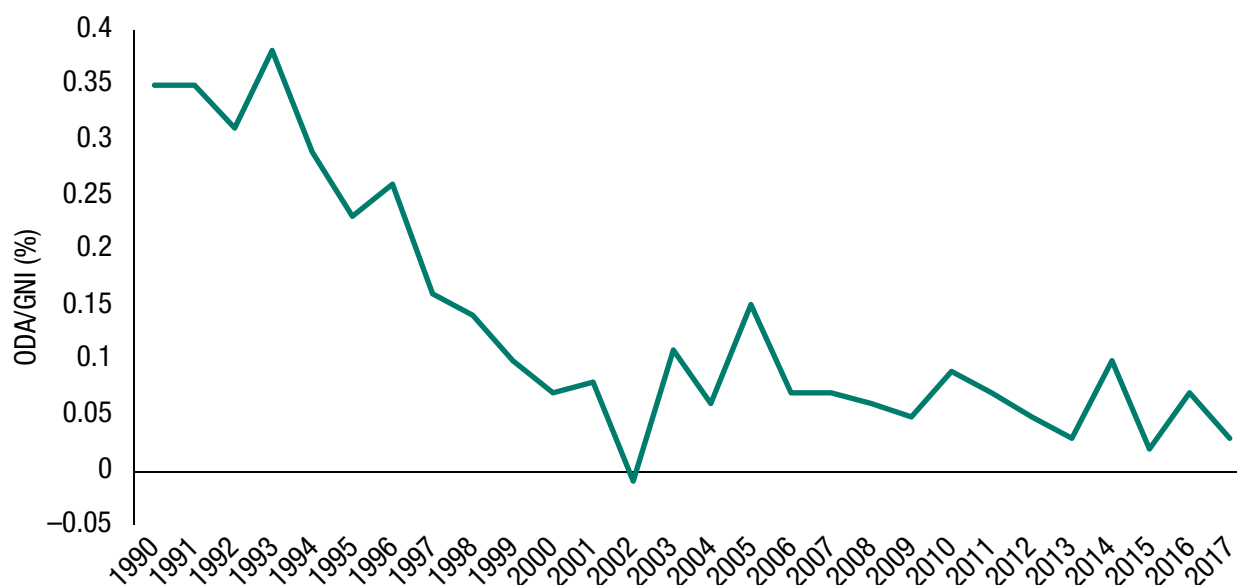
For NGOs in Chile, this marked the beginning of their transition process from external assistance; while they continued to receive some funding, the levels of support had drastically declined, leading to an early funding crisis.

Today, civil society 'plays a narrow role in Chile's co-operation' (OECD, 2013). Some NGOs act as implementers abroad for specific projects funded by AGCID, working as partners on Chile's horizontal and triangular cooperation. Other NGOs have sought to access funding through the few remaining development partners, such as the EU, or through responding to calls for proposals under specific Chilean development funds, such as the Chile–Mexico Joint Cooperation Fund or the Chile Fund against Hunger and Poverty, managed by the UNDP (*ibid.*; see the box in section 4.1).

<sup>7</sup> In the case of France, commitments increased sixfold between 1992 and 1993, from \$13 million in 1992 to \$81 million the following year. However, this increase should be considered an exceptional payment as ODA from France returned to around \$13 million in 1994.



**Figure 3 Official development assistance to Chile as a share of gross national income, all donors**



Note: The negative value for 2002 shows that Chile paid back more than it received in aid (i.e. net ODA was negative because of loan repayments from Chile exceeded new grants and loans that year).

Source: OECD's DAC3a dataset, accessed February 2019.

prior decades. In the 1990s, the new government consolidated Chile's economic growth and continued to advance the country's economic progress by using aid to support the development of domestic capacity and infrastructure needed for future growth. This included prioritising aid for investments deemed to be important for Chile's future competitiveness and advancement such as knowledge transfer (particularly on scientific and technological issues), technical capacity-building, national infrastructure and productive capacity (Egaña-Baraona, 1991).

## 3.2 Late 1990s to early 2000s

From the late 1990s, Chile began transitioning from being a net recipient of ODA to a more active development cooperation partner within the region. This period saw a reduction in ODA volumes, which fell by half from \$233 million in 1996 to \$114 million by 1999 (Figure 2). As a share of GNI, ODA inflows to Chile also declined

from 0.38% in 1993 to 0.01% by 1999 due to increasing GNI and falling ODA.<sup>8</sup>

The decline in ODA to Chile happened in parallel to (or was the result of) three key trends. The first is the withdrawal of ODA from several bilateral donors including the Netherlands, Norway, Sweden and the UK (Department for International Development, DFID) due to Chile's continued improvement in economic and social development. In the case of the Netherlands, Sweden and the UK, average ODA commitments to Chile at least halved between the periods 1995–1997 and 1998–2000 (OECD, 2019a), albeit from a low base.<sup>9</sup> In the case of Norway, the decline occurred slightly later, with ODA falling from \$3.3 million between 1998 and 2000 to less than 10% of that amount (\$0.3 million) between 2001 and 2003.

Second, while Chile continued to receive support from bilateral partners, relations with some donors started shifting towards triangular cooperation (see section 4.2). The Government

<sup>8</sup> By 2002, Chile's ODA to GNI ratio fell to a low of -0.01% due to debt repayments to donors.

<sup>9</sup> Assistance from the Netherlands declined from \$2.1 million between 1995 and 1997 to \$0.5 million between 1998 and 2000; from Sweden, from \$2.4 million to \$1.3 million; and from the UK, from \$1 million to \$0.4 million, during the same periods respectively. All figures reported are based on the authors' own calculations using data from the OECD-DAC (commitments, US\$, constant 2016 prices).

of Chile recognised that its higher level of development was making it a less attractive destination for traditional ODA. Meanwhile, its developmental success increased the demand from partner countries for its cooperation, '[exceeding] by far Chile's actual possibilities of covering such demands with its own resources' (AGCI, 1998a). Triangular cooperation was seen by the government as a way to meet increased demand and was encouraged to advance its outward cooperation. As a result, its relationships with several donors shifted. For instance, Finland, Japan and Sweden began to limit traditional bilateral development programming, engaging instead with Chile as an emerging donor via triangular cooperation (*ibid.*).

Third, as bilateral aid flows to Chile declined, ODA was increasingly disbursed via multilateral institutions. The share of ODA allocated by multilateral institutions more than quadrupled from the late 1990s to the early 2000s, from an average of 8% of ODA between 1997 and 1999 to an average of 36% between 2003 and 2005.<sup>10</sup> Notably, the largest increases in funding were provided by EU institutions, which committed an average of 15% of Chile's total ODA between 2003 and 2005, up from 7% between 1997 and 1999.<sup>11</sup>

Additionally, increasing multilateral commitments from other institutions, including the Global Fund to Fight AIDS, Tuberculosis and Malaria (which accounted for an average of 14% of total ODA between 2003 and 2005 but was an on-off disbursement for HIV/AIDS programmes) and the Global Environment Facility (valued at around 5% of total ODA between 2003 and 2005), contributed to the rising relative importance of multilateral organisations in the early 2000s.

In the late 1990s and early 2000s, funding from multilateral institutions was primarily

allocated to support sectors related to environmental policy and administration; advancing environmental protection and natural resources were key priorities for Chilean cooperation (AGCI, 1999). We note, however, that the rising prevalence of multilateral institutions in Chile's ODA landscape was not due to dramatic increases in funding from these agencies, but rather to the changing composition of donor engagement within Chile as bilateral donors started phasing out their programmes. (Chile could only borrow, even during the late 1990s and early 2000s, at non-concessional terms from the IADB and the World Bank. This analysis is included in section 3.3.)

In the context of declining ODA, technical assistance and scholarships became vital instruments for supporting Chile's human capacity development. While traditional bilateral development partners provided mostly grants and technical assistance to Chile throughout the early 1990s, by the latter part of the decade, development cooperation to Chile prioritised scholarships as well as technical support. Both instruments were listed in the Government of Chile's 1999 development cooperation policy as key instruments of support. In particular, the policy noted that technical cooperation, including the transfer of knowledge experience and economic and technical cooperation, was the 'method of choice' for vertical cooperation in the context of declining engagement (AGCI, 1999: 13). While multilateral partners continued to engage with Chile on primarily a grant basis, donors, including Germany, listed the technical and professional training received via scholarships or exchange programmes as priority forms of cooperation with Chile during the period (AGCI, 1998b).<sup>12</sup>

The social sectors remained the largest recipients of ODA to Chile, yet their relative

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10 Percentage shares of multilateral ODA to Chile were calculated by the authors using commitments data sourced from the OECD's Creditor Reporting System database.

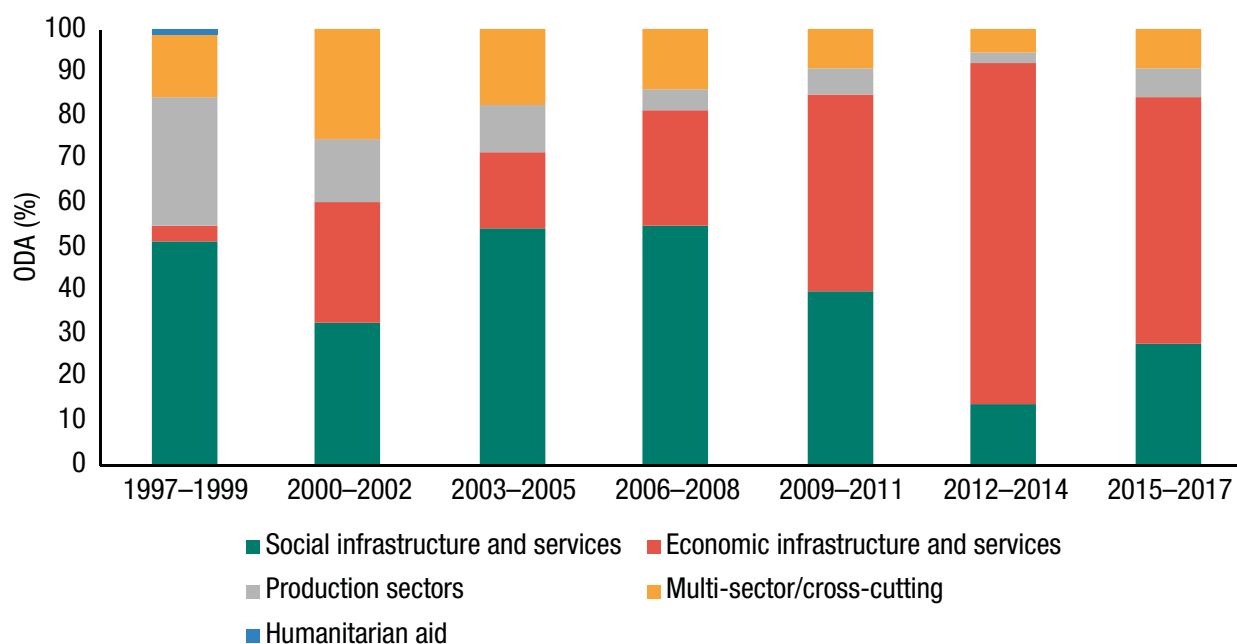
11 This was equivalent to an average of 43% of total ODA committed by multilateral organisations between 2003 and 2005.

12 The government also made lines of credit available to Chilean students studying domestically and abroad via Corporación de Fomento de la Producción (CORFO), an agency under the Ministry of Finance with a mission to support Chile's competitiveness and strengthen its human capital and technological capacities (AGCI, 1998b; CORFO, 2018).

share fell as development cooperation increasingly also targeted economic and cross-cutting sectors. ODA to the social sectors declined from almost 50% between 1997 and 1999 to 31% between 2000 and 2002, yet remained the largest sector (OECD, 2019a;

Figure 4). The majority of ODA for the social sectors was allocated to support education (see Figure 5). This aligned with the government's prioritisation of education as a way for Chile to foster social development as well as to ensure its future productive capacity (World Bank, 1995).

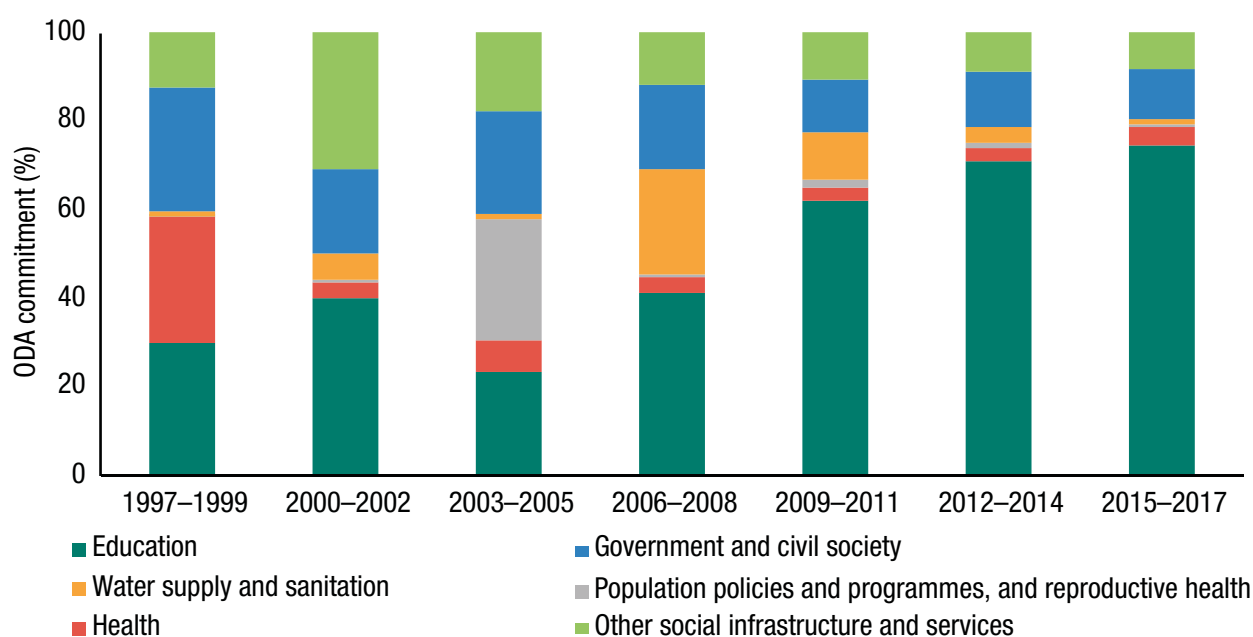
**Figure 4 Average official development assistance commitments by sector, all donors**



Note: Data not available prior to 1995.

Source: Data is taken from the OECD's Creditor Reporting System dataset, accessed February 2019.

**Figure 5 Official development assistance commitments by social subsector, all donors**



Note: Data not available prior to 1995.

Source: Data is taken from the OECD's Creditor Reporting System dataset, accessed February 2019.

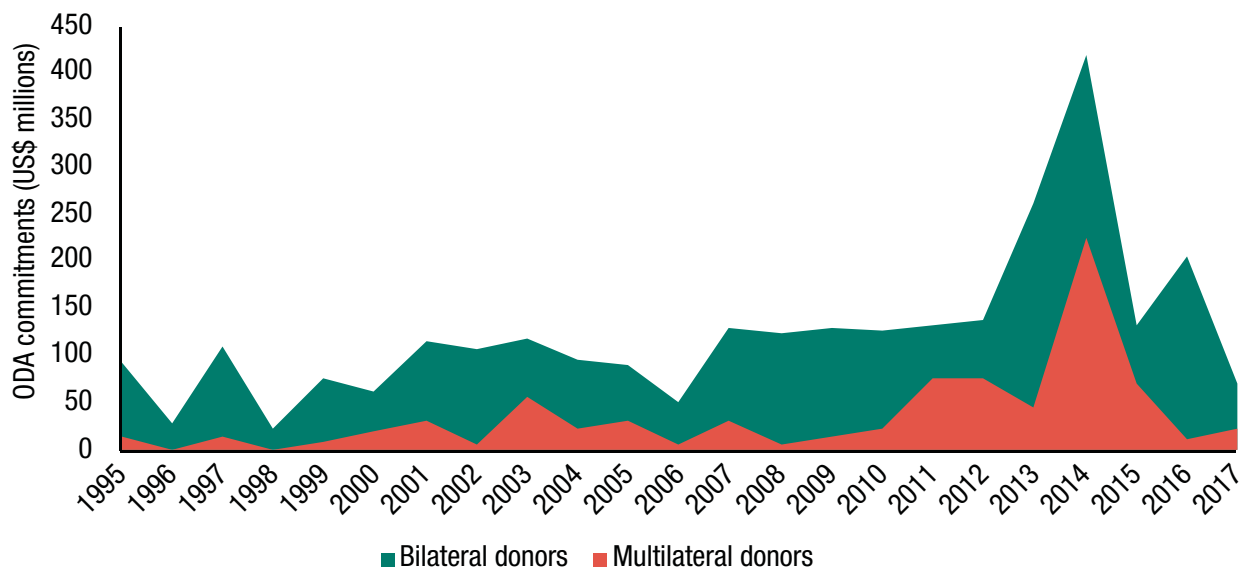
At the same time, the share of ODA allocated to economic sectors increased from an average of 4% between 1997 and 1999 to more than a quarter of ODA (26%) between 2000 and 2002 (Figure 4). This increase can be linked to two loans provided by Germany in 2001 and 2002 for support to ‘formal sector financial intermediaries’.<sup>13</sup> Funding to cross-cutting sectors rose from 14% of ODA inflows between 1997 and 1999 to 24% between 2000 and 2002. Much of the spending under this category was allocated for grants to support environmental policy, biodiversity and rural development so it is an early indication of the increasing importance of environmental and climate-related issues.<sup>14</sup>

### 3.3 Mid to late 2000s

Many of the trends identified during the late 1990s to early 2000s continued throughout the decade – notably declining ODA flows and increased ODA share from multilateral organisations (see Figure 6). However, three main changes in development cooperation stood out in the second half of the 2000s.

First, while the mid-2000s were characterised by the stagnation of Chile’s inward ODA at an average of \$109 million per year between 2003 and 2005, and \$102 million between 2006 and 2008 (Figure 2), this period also saw traditional development actors replaced with projects and programmes from other government departments within donor governments, and multilateral actors. Key development partners continued to withdraw as Chile’s increasing level of development made it more difficult for donors to sustain and justify traditional development programmes. Germany’s Federal Ministry for Economic Cooperation and Development (BMZ), for instance, officially stopped programming new bilateral funding to Chile in the late 2000s. However, Germany continued to cooperate with Chile through other line ministries, such as BMU on climate-related projects and the implementing agencies of German development cooperation – Kreditanstalt für Wiederaufbau (KfW) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), which delivered previously planned projects from BMZ. Similarly, while ODA to Chile from the UK’s development

**Figure 6 Official development assistance commitments to Chile by multilateral and bilateral channels, all donors**



Note: US\$ millions, constant 2016 prices. Data not available prior to 1995.

Source: OECD’s Creditor Reporting System dataset, accessed February 2019.

13 Both loans were valued at around \$30 million (constant 2016 prices) and accounted for the bulk of assistance provided to the economic sectors in both years.

14 Such increases occurred at the expense of productive sectors, with declining support for forest development.



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actor, DFID, officially ceased in the early 2000s, the UK continued to provide ODA to Chile through the Foreign and Commonwealth Office (FCO).<sup>15</sup>

Second, the changing landscape of Chile's development actors mirrored an increase in the share of ODA allocated as loans. Indeed, the share of ODA committed to Chile as loans increased from an average of 6% between 2003 and 2005 to 28% between 2006 and 2008. The bulk of this increase (95%) can be attributed to loans provided by Germany, primarily from KfW. Such loans primarily supported activities in the renewable and climate-related sectors.

Third, the mid-2000s also saw a rise in non-concessional development finance to Chile (Figure 7). By the 1990s, Chile was no longer eligible for concessional loans from multilateral institutions (World Bank and IADB); the only option was to borrow at non-concessional terms, which the government chose not to do due to concerns about debt sustainability. By the 2000s, Chile's strategy changed as it increasingly borrowed at non-concessional terms from the World Bank and the IADB.<sup>16</sup> Between 1995 and 2008, the IADB committed more than \$2.2 billion in other official flows (OOFs) (that is, non-concessional loans), primarily targeting public sector policy and management and small and medium enterprise (SME) development.<sup>17</sup> Similarly, the World Bank provided a total of \$1 billion in OOFs over the same period (mainly to education and road transport).<sup>18</sup> While the

ratio between OOFs and ODA fluctuated considerably over time, by the mid-2000s, OOFs were out-pacing ODA at almost 4:1. This was largely due to sizeable investment from the IADB in 2006 (as mentioned), and was perhaps indicative of the new normal in Chile's development finance landscape. Indeed, by the early 2010s Chile's OOF inflows had increased considerably, rising from a three-year average of \$361 million annually (2006–2008) to \$676 million (2015–2017). At these levels, Chile received almost five times more OOFs than ODA, which was valued at an average of \$136 million between 2015 and 2017 (Figure 7).

### 3.4 The 2010s

The 2010s were marked by the continuing decline of ODA to Chile as more donors closed their bilateral programmes, albeit from small amounts. Spanish aid declined from an average of \$10 million per year between 2009 and 2011 to less than \$1 million between 2015 and 2017. In the case of the UK, although funding from DFID was formally phased out in 2002, the FCO remained present in the country as a development partner. It allocated scholarships and project funding through the Prosperity Fund, and match funding through the Newton Fund, which aims to contribute to the development of middle-income countries through supporting the global business environment, strengthening institutions, and encouraging greater private

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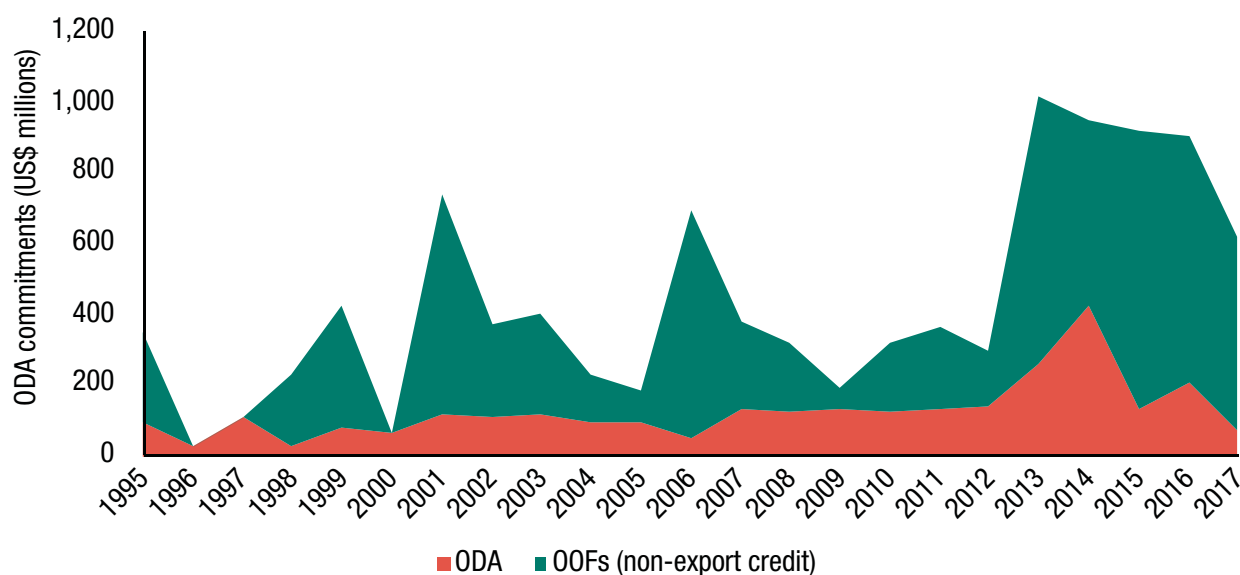
15 See OECD Creditor Reporting System microdata for changes in allocation to Chile by extending agency. In both the UK and German cases, the trend of continued allocations from different agencies could suggest that traditional development actors (BMZ and DFID) may have more stringent development mandates that limit their ability to engage in countries as they near graduation from ODA.

16 Chile is not eligible for concessional funding from the MDBs but only for non-concessional assistance, which is classified as OOFs.

17 Most of IADB funding was to the social sectors (37%) and productive sectors (33%) (OECD, 2019a). In particular, the IADB's OOFs in the social sector were primarily allocated to support projects in relation to public sector policy and administrative management, with a large investment of \$420 million in 2001 and subsequent annual investments for this purpose of less than \$50 million per year between 2002 and 2007. Additionally, the IADB invested \$571 million in 2006 for the productive sectors, specifically to support the development of SMEs in the industry, mining and construction sectors.

18 Of World Bank funding, 71% went to the social sectors, with a further 27% allocated to economic infrastructure (mainly road transport). Of the World Bank's total OOFs, 40% were allocated to the education sector (about \$404 million), which was a priority over the period.

**Figure 7 Official development assistance commitments to Chile, 1995–2017**



Note: OOFs, other official flows. US\$ millions, constant 2016 prices.

Source: OECD's Creditor Reporting System dataset, accessed February 2019. Data is not available prior to 1995.

investment. In December 2016, the FCO formally stopped programming new funding to Chile due to the forthcoming graduation from the list of ODA-eligible countries. The EU formally graduated Chile from its Development Cooperation Instrument (DCI) in 2013. At the time, the EU was implementing its final bilateral earmarked envelope with Chile (2010–2013), valued at €40 million. However, the mid-term review of EU funding found that only half of the envelope had been committed; as a result, the remaining funding was reduced due to the slow programming of available funds.

Support for renewable energy increased significantly throughout the 2010s, reaching 60% of total ODA to Chile between 2012 and 2014. This increase was primarily driven by two large loans – \$160 million from KfW for renewable energy and \$170 million from the EIB for wind energy (see Box 7).

As Chile neared graduation from ODA, concessional financing from multilateral institutions also slowed. However, the country continued to seek alternative forms of support and engagement with multilateral partners. Following two spikes in ODA – one in 2011 due to a large ODA loan (valued at \$67 million)

provided by the EIB for renewable energy and a second EIB loan in 2014 (valued at \$18 million) – ODA from multilateral institutions declined considerably, also reflecting Chile's increasing income.

In January 2018, Chile officially graduated from the list of ODA-eligible countries according to the OECD-DAC rules. While Chile has already felt the effects of graduation in terms of declining aid resources, its formal graduation had different impacts on engagement with different branches of donor governments. For instance, in the case of Germany, because very limited ODA resources can be provided to Chile post-graduation (although, recall that BMZ stopped programming new investment in Chile from the late 2000s), any remaining funding was for projects or regional cooperation programmes that were agreed prior to Chile's graduation. However, based on interviews with development partners, we understood that other line ministries within the German government could continue providing non-ODA funding to Chile going forward.<sup>19</sup> Such flows, however, are likely to be far smaller than ODA-allocated amounts and cannot be counted as ODA.

19 For instance, in 2019, KfW announced a \$65 million loan for the Economic Development Agency (Corporación de Fomento de la Producción, CORFO) to support the development of solar thermal energy in the Atacama Desert (KfW, 2019).

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**Box 7 The rise of climate finance and Chile's changing official development assistance landscape**

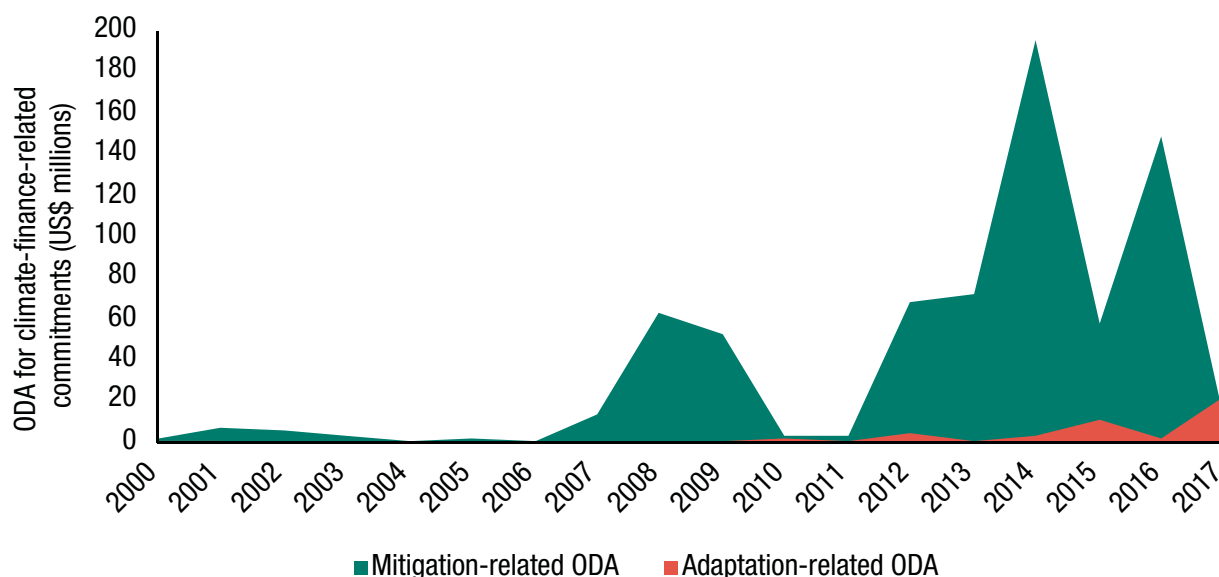
The climate change agenda has become increasingly important for the Chilean government. In 2008, the government of President Michelle Bachelet launched a new climate action strategy, the 'National Climate Change Action Plan'. The plan outlines multiple strategies to improve Chile's resilience to extreme weather events and frames climate action as a key public policy priority for the Chilean government. Specifically, it notes that the country is highly vulnerable to climate events, with climate anomalies threatening energy generation and potable water supply in particular (Government of Chile, 2008). Since then, adapting to climate change has remained high on the government's agenda. In 2015, the government committed to reduce greenhouse gas emissions by 30% over 2007 levels by 2030, while the most recent development cooperation policy lists environmental and climate protection as a key global public good and focus of its commitment to sustainable development (Herrera, 2015; AGCID, 2015a).

As a result, Chile has seen increasing ODA to support climate-related activities – rising from an average of \$3 million per year between 2000 and 2006 (an average of around 2.5% of ODA annually) to accounting for almost half of all ODA received in 2014 at a peak of \$198 million (Figure 7). ODA for climate-related issues began to increase in the late 2000s and, while dropping between 2010 and 2011, Chile's inward ODA was increasingly allocated to climate-related issues from 2012 onwards. In all cases, activities for climate mitigation form the bulk of Chile's climate-related activities (Figure 7). Between 2014 and 2016, the largest provider of ODA for climate finance to Chile was Germany (KfW), which committed an average of \$101 million per year, followed by the Climate Investment Fund (\$48 million) and the Adaptation Fund (\$10 million). Chile has also received ODA funding for climate activities from vertical funds including the Green Environment Facility (GEF) and Green Climate Fund (GCF).

Chile has also received an increasing amount of OOFs for climate finance. Between 2011 and 2016, it received around \$1 billion in funding for climate-related activities – the equivalent of almost 32% of all OOFs received over the period. These flows were not concessional (or not specified as concessional) and were primarily provided by the International Finance Corporation (\$406 million), the IADB (\$351 million) and the European Investment Bank (EIB) (\$170 million) (OECD, 2019b). For the sake of comparison, over the same period, approximately \$565 million was provided as ODA – equivalent to half of the amount allocated as non-concessional flows.

Beyond financing for climate change adaptation and mitigation, Chile has actively sought technical assistance and technology transfer to enhance progress towards its climate objectives. Interviewees from donor governments noted that they were engaging in peer-to-peer exchanges with Chile and that Chilean counterparts continued to seek technical cooperation to advance its climate legislation, policy and practice, including through reimbursable assistance. We also heard from officials within the Chilean government that strategic partnerships on climate change were highly valued. In particular, interviewees cited Chile's engagement with Canada (via the Pacific Alliance) on measuring greenhouse gases and developing legislation around recycling programmes. Government officials also mentioned the need for continued collaboration around technical issues, including on broader legislation around climate change and environmental impact assessments as key areas for future beyond-ODA cooperation.

**Figure 8 Official development assistance for climate finance-related commitments**



Note: US\$ millions, constant 2016 prices.

Source: OECD-DAC's Climate Finance Dataset, accessed February 2019.

### 3.5 Government strategy and approach towards graduation from aid: an analysis since 1990

As early as the 1990s, the Chilean government recognised that the country's strong development performance over previous decades would make it difficult to continue receiving ODA (CIC, 1993). The government acknowledged Chile's future transition from ODA and the associated changes to relations with donors; this was already implicit in AGCID's dual mandate, which acknowledged that Chile would become a provider of cooperation. However, despite recognising Chile's future graduation from ODA, the government had no explicit policy for how to manage the transition from aid.

As the influx of ODA that followed democratisation tapered off, the Chilean government recognised that it would no longer be eligible for grants as a net ODA recipient and that donors were already withdrawing cooperation. A 1998 ACGID report noted that, while remaining a recipient of ODA in the late 1990s, Chile's progress towards development over the decade had increasingly made it 'no longer eligible as a recipient of net international

cooperation' (AGCI, 1998a: 10). However, continued domestic need 'prevented Chile from becoming a net donor of cooperation' (ibid.).

During the late 1990s, the Government of Chile actively sought to maintain relations with donors as it progressed towards graduation from ODA, including through promoting trilateral cooperation as an avenue for continued engagement. While this would not increase ODA to Chile, it allowed the government to maintain the international relationships it had sought to strengthen following democratisation. Policy statements from the time acknowledge that Chile had achieved a higher level of development than others within the region, which ultimately contributed to its engagement as a provider of development cooperation (AGCI, 1998a). It is worth noting that in the early period, the government appeared to have accepted the financial implications of Chile's future graduation without question.

As donors continued to exit throughout the 2000s, Chile seemed unconcerned by its future graduation from ODA and instead focused on its own development process. Chile's sustained economic development remained a key priority for the government as it sought to attain high-income status. Even Chile's development

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cooperation policy reflected its focus on advancing its own economic growth and productive capacity.

This changed in 2013, when the withdrawal of the EU's Development Cooperation Instrument (DCI) caused the government to confront the reality of its imminent ODA graduation. Interviewees noted that, at the time, the government appeared to be in two minds about the graduation process. On one hand, some viewed Chile's strong development progress towards high-income status as a signal that the country had made sufficient progress and should graduate from ODA. On the other, some questioned Chile's graduation on the basis that the country still had high levels of inequality and varying degrees of poverty, particularly in remote regions and away from the capital. As a result, they argued that Chile should not graduate from ODA and sought to keep traditional forms of cooperation with donors.

As development partners withdrew, the discourse around graduation – and voices appealing for Chile to remain eligible for ODA – began to intensify and officials questioned the basis of Chile's graduation from ODA eligibility on income criteria alone. Interviewees stressed that the aggregate figures reported for Chile in terms of income masked key differences in equality and ostensibly obscured pockets of poverty that remained across the country. As one interviewee put it, the averages that determine Chile's graduation and ODA eligibility 'lie in all cases'. In the years that followed

Chile's graduation to high-income status, the government continued to argue that Chile should remain eligible for ODA, making the case for changes to the graduation criteria at the DAC.

As one interviewee pointed out, 'the [Chilean] government aimed to change the narrative of the aid architecture'. Chile challenged the concept of graduation from the list of ODA-eligible countries in early 2016. Together with Antigua and Uruguay, Chile asked the DAC to review the graduation criteria and for a moratorium for graduating countries until a revised approach was approved. (This never happened.) Chile made this request because of the multidimensional challenges that middle-income countries face; the idea was to expand the graduation criteria beyond annual income per capita to reflect some of the broader development lenses of the 2030 Agenda for Sustainable Development.

Overall, the Chilean government has not had a clear strategy for transition and graduation from aid over the past decade. To the best of our knowledge, based on our review of policy documents and several interviews, Chile's evolution from net recipient of development assistance to development cooperation provider has not been an explicit policy priority in recent years. While Chile's early development strategies acknowledged that, as a middle-income country, inward development assistance would fall over time, we did not find evidence of further efforts to plan for Chile's transition from aid as it neared graduation.



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# 4 South–South and triangular cooperation programmes: flows and strategies since 1990

## 4.1 South–South cooperation

As early as the 1960s, the Chilean government engaged in major South–South initiatives, including the creation of the Andean Development Community (1968) and the Conference on South–South Cooperation (1978) (UN, 1978; López Cabana, 2014). In the years that followed, Chile provided technical assistance to other developing countries, primarily through ‘the implementation of a programme of post-graduate academic fellowships and a programme of technological exchanges with the outside world, publicising the Chilean experience in some areas of national development’<sup>20</sup> (UNDP, 1986: 12–13). However, such engagement was limited, expanding primarily during and after the 1990s following the country’s transition to democracy.

Formalised in the early 1990s, Chile’s horizontal cooperation served the dual purpose of supporting regional development while pursuing Chile’s foreign policy interests. The programme aimed to foster regional development through exchanging Chile’s development experiences with other countries from the region (AGCI, 1999; Gómez, 2000). At a time when Chile’s development success was widely known

(Santander and Alonso, 2017), the government capitalised on its skills and experiences to contribute to partner countries’ national processes via exchanges on science, technology, economy and culture.

From its earliest manifestations, Chile’s horizontal cooperation programme reflected a technical model that involved two main types of activities: scholarships (funded by Chile) and technical assistance (Gómez, 2000; Santander and Alonso, 2017). In part, the choice of instruments can be linked to Chile’s development experience. According to Gómez (2000), the use of scholarships in Chile’s horizontal cooperation is due to its historical role as an important hub for professional training for elites from Latin American countries. Before the mid-1970s, the flow of students to Chile had created a situation whereby many high-ranking personalities in neighbouring countries had attachments and relationships with Chile due to their time as a student. While this flow was interrupted as a result of the military coup, the Aylwin Azócar government sought to revive the exchange of students by establishing a scholarship programme (Gómez, 2000).

Over time, Chile’s horizontal cooperation programme grew in scope and size. In 1998,

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20 These early efforts were linked to a programme initiated with the UNDP in 1984 under its fourth funding cycle, which provided \$113,500 to support Chile’s technical cooperation activities with developing countries (UNDP, 1986; Herrera, 1993).

Chile allocated \$2.4 million for its South–South cooperation (SSC) activities through its programme for Technical Cooperation among Developing Countries (TCDC). They included technical assistance, scholarships and triangular cooperation (UNDP and AGCI, 2012). Of the TCDC budget, approximately \$2.1 million of its funding in 1998 was allocated for bilateral technical assistance and scholarships.<sup>21</sup> Over the course of the next decade, Chile’s horizontal cooperation spending grew to almost \$7 million between 2008 and 2009, after falling to less than \$1 million between 2000 and 2004. While this marks a tripling of Chile’s horizontal assistance, the amount falls far below Chile’s ODA receipts, which were valued at \$98 million between 2008 and 2009. By 2016, Chile was the third largest provider of SSC within Latin America and the Caribbean (LAC) after Mexico and Argentina (SEGIB, 2018).

Since starting in 1993, AGCI’s scholarship programme has grown from a handful of scholarships for Central American professionals who completed master’s degrees in Chile to a dynamic programme that offers scholarships to 500 students from Latin America, Africa and Asia. The centrality of Chile’s scholarship programme in the country’s outward cooperation was formalised in 2005 when the law creating AGCID was amended to include the role of promoting, managing and coordinating study agreements and scholarships for foreign students in its mandate (Gutiérrez and Jaimovich, 2017). This legal change served to ‘institutionalize Chile’s growing capability and willingness to collaborate with its neighbours’ (ibid.: 14). By 2015, AGCID’s Scholarship Programme had grown to cover a diverse range of scholarships, offering support to students from across the globe for master’s degrees and undergraduate studies, diplomas and international courses (AGCID, 2015b). At the time of writing, AGCID’s scholarship programme covered several thematic training areas including disaster risk

reduction (primarily in Asia), social development, agriculture and food security, environmental issues, and strengthening the public sector and democracy.

Technical assistance was a way for Chile to convey and share the institutional and technical aspects of its developmental achievements. It was conducted primarily by civil servants, who took short professional visits to partner countries to assist with policy activities or conduct training (Gómez, 2000). As a result, Chile’s technical cooperation focused on activities related to the modernisation of public administration and governance, institution-building and social policies; areas where Chile, and its implementing civil service, had a comparative advantage (Gómez, 2000; Santander and Alonso, 2017). By the early 2010s, Chile worked with 13 countries across the LAC region and supported programming in key thematic areas including poverty reduction and social development, institutional strengthening and modernisation of the state, and promoting productivity, innovation and competitiveness (AGCI, 2010).

The share of Chile’s cooperation provided as technical assistance increased from 32% in 1998 to 67% by 2009.<sup>22</sup> This spike in Chile’s spending on technical cooperation was linked to funding allocated as part of the Chile–Mexico Joint Cooperation Fund (Gutiérrez and Jaimovich, 2017). The Chile–Mexico Fund was created in 2007 and finances development activities between Chile, Mexico and, at times, with a third development partner (OECD, 2013; see Box 8).

While there continues to be plenty of demand for Chile’s horizontal cooperation, particularly from partners within LAC, budget constraints appear to hinder project implementation. Some interviewees from line ministries noted that they receive little, if any, funding to support their development cooperation efforts. While the model of horizontal cooperation continues to centre around civil servants sharing knowledge with partners, some agencies noted that available

21 This figure only includes funding allocated by Chile. An additional \$793,000 was provided by donors for trilateral cooperation activities in 1998 alone.

22 Authors’ own calculations based on data compiled from UNDP and AGCI (2012). Data does not appear to be available beyond 2009.

funding covers little more than travel per diems, making it difficult to expand horizontal cooperation and invest further in this kind of engagement.

## 4.2 Triangular cooperation

Chile's triangular cooperation programme began in 1998, at a time when its rapid economic growth had put it on the path towards graduation from aid and led donors to reduce ODA to Chile. In this context of transition, Chile's triangular cooperation programme emerged as a way to maintain relations with traditional donors while acknowledging that Chile's development progress meant that it no longer required the same levels of financial support from donors. Indeed, the Chilean government's first guidance on triangular cooperation noted that, in addition to traditional development objectives, this modality aimed to strengthen bilateral relations among traditional sources of international cooperation and emerging economies such as Chile (AGCI,

1998c). Moreover, AGCI (*ibid.*) notes that the reputation of Chile as a reliable counterpart in development activities also led some traditional donors to express early interest in working with Chile to replicate the Chilean experience within the region.

Chile's early triangular cooperation occurred with the support of Finland, Japan, the Organization of American States, Sweden and the US to countries within the LAC region (AGCI, 1998c; UNDP and AGCI, 2012). The early recipients of Chile's triangular cooperation were Guatemala (with Sweden), with key projects on institution-building, and Nicaragua (with Finland), for the development of SMEs. The largest development partner in Chile's triangular cooperation in the late 1990s was Japan, which provided almost 35% of total funds for triangular programming between 1998 and 1999 (UNDP and AGCI, 2012: 13).

Chile's triangular cooperation programme increased in scope throughout the early 2000s as donors continued to reduce traditional bilateral programmes and instead promoted cooperation

### Box 8 Chile–Mexico Fund and Chile Fund Against Hunger and Poverty

Together with other institutions, the Chilean government – and AGCID in particular – developed two key innovative funding mechanisms to expand and strengthen development cooperation beyond ODA.

In January 2006, Mexico and Chile signed a strategic agreement, which also included the establishment of the **Chile–Mexico Joint Cooperation Fund** (Fondo Conjunto de Cooperación Chile–México). Each country committed \$1 million annually to support development projects in both countries, including triangular cooperation projects. According to interviewees, this structure ensures committed resources, strategic planning (with an annual assessment of previous programmes and project approval for the following year) while allowing for flexibility to respond to emergencies – such as earthquakes in the 2010s in both countries. Between 2006 and 2014 the Chile–Mexico Fund concentrated its government projects on social protection, environment, competitiveness, agricultural development, education and culture.

The Chile Fund Against Hunger and Poverty (Fondo Chile contra el Hambre y la Pobreza, henceforth Chile Fund), managed by UNDP, was also set up in 2006, and receives resources from airport taxes of \$2 per person for passengers coming in and out of Chile. Airport taxes fund the broader engagement of Chile with Unitaid, the International Drug Purchase Facility in low-income countries, of which Chile is a founding member (along with Brazil, France, Norway and the UK). The Chile Fund is one of the activities funded by these resources. Its main objective is SSC between Chile and other equally or less developed countries in LAC, Asia Pacific and Africa. Activities include sharing Chilean expertise on the planning, implementation and evaluation of social and economic policies.

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via triangular activities. However, the absolute size of its triangular cooperation programme remained small. Chile's funding for triangular cooperation was somewhat erratic over the period, peaking at \$584,000 in 2004. However, by 2006 it was engaged in triangular cooperation projects and programmes with 14 countries in Latin America, valued at a total of \$918,000 (ibid.: 27). While figures remain low, Gutiérrez and Jaimovich (2017) warn that the value of Chile's triangular cooperation programme could be underestimated as the costs of staff time for technical experts from AGCID are not counted (only direct travel costs are reported).

By 2015, Chile had become the top provider of triangular cooperation in the LAC region. It contributed to almost a third of active cooperation projects, the majority of which supported institutional strengthening (20.5%), services and social policies (17.9%), disaster management (12.8%), and health (12.8%) (SEGIB, 2017: 126 and 142). From 2010 onwards, Chile's triangular cooperation

programme expanded both in size and scope. The country has supported approximately 30 active triangular programmes every year since 2012 (SEGIB, 2017: 129), reaching beyond Latin America to include projects in Africa (Mozambique and Sierra Leone) and Asia (the Association of Southeast Asian Nations countries in partnership with Singapore) (UNDP and AGCI, 2012; AGCID, 2013; Gutiérrez and Jaimovich, 2017). Germany and Japan were Chile's largest triangular cooperation partners, but the country expanded its programmes with a range of development partners including the World Food Programme, Food and Agriculture Organization of the United Nations, Australia, Canada, France, Mexico, Portugal, Singapore, Spain, Switzerland, and the EU (AGCID, 2013). Chile also engages with and through Secretaría General Iberoamericana (SEGIB), via programmes such as the Ibero-American Programme for Strengthening South–South Cooperation, to support regional standard setting for triangular and SSC (SEGIB, 2019).

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# 5 Lessons from Chile's transition from aid and graduation from official development assistance

Chapter 2 of this report investigated the evolution of the aid management structures and strategies, approaches and positions to transition and graduation from development assistance from the perspective of the Chilean government. In Chapters 3 and 4 we analysed the changing patterns of international development cooperation Chile received and provided from the 1990s onward.

This chapter builds on this analysis and brings these elements together to summarise the key findings against our research questions. We structure this in three parts. First, we discuss how the Chilean government managed the transition from development assistance. Second, we summarise the type of cooperation Chile demanded from development partners during its transition from aid and how this demand evolved after graduation from ODA. Finally, we look at how expectations and modalities for international cooperation developed beyond ODA. Most of the information gathered in this chapter is based on the semi-structured interviews, unless otherwise specified.

## 5.1 Managing the transition from aid

### 5.1.1 Sustaining and broadening development results

Chile has its own resources and capabilities to manage, sustain and broaden development

results achieved so far. Chile is an advanced economy, the fourth richest country in the Americas based on average annual income per capita and has been a member of the OECD since 2010, which includes upper-middle and high-income economies. Chile has a strong and capable civil service that can formulate priorities and implement medium- and long-term strategies. In the early phase of the country's transition to democracy, donor contributions to social development were essential for project implementation. Since then, however, ODA has always contributed marginally towards the Chilean public budget (less than 0.1% ODA/GNI). To the best of our knowledge, donor funding has never been decisive for project implementation. This suggests that moving away from ODA was not a major challenge for Chile from a financing perspective. While Chile's tax-to-GDP ratio is far lower than the OECD average (reflecting its relatively smaller public sector) and although the government has been implementing fiscal austerity programmes, its administration is considered to have enough fiscal capacity to provide counterpart funding or fund development projects itself.

However, the country still has strong demand for technical assistance, expertise and knowledge-sharing to address structural vulnerabilities. Interviewees from the Chilean government – the Ministry of Foreign Affairs and line agencies – called for continued technical



assistance, knowledge-sharing and expertise. They stressed that the government still faces structural vulnerabilities and would benefit from the experience that development partners have built in several areas to address these challenges.

For Chile, the question about graduation is not related to financial assistance but to Chile's desire to maintain engagement with donors in the form of technical cooperation and knowledge transfer. In most of the interviews, the Chilean government was not concerned about falling financial assistance from development partners as a result of ODA graduation. Instead, respondents stressed the continued desire for technical support on a range of thematic issues and expressed concern that graduation had reduced opportunities for Chile to access technical capacities through cooperation and scholarships. Some government interviewees pointed out that fewer projects funded by development partners will mean fewer opportunities to benefit from technical assistance, which usually comes together with project implementation. Indeed, the primary goal for those seeking to keep Chile eligible for ODA is to ensure that the country retains access to technical support on key issues and areas, including the environment.

The creation of AGCID played a pivotal role in Chile's transition from solely being an aid recipient to becoming a donor itself, and in the creation of innovative mechanisms. To many government interviewees, AGCI's creation, with its dual mandate as a recipient and a donor, set the tone for the transition from aid by prioritising at the institutional level outward as well as inward cooperation. In interviews, Chile was often described as being a different sort of donor because 'what it receives it gives'. Respondents mentioned some coordination issues across the government (although this is not exclusive to Chile: see Prizzon et al. (2016b)). But despite this, since the 1990s AGCID has been managing the relations between development partners and Chilean government line agencies (with international cooperation leads in most of these) as well as its relationships with recipient countries and other partners in Latin America.

Chile's SSC suffers from budget limitations. Despite the benefits of a dedicated agency that manages development assistance received as well

as setting up its own SSC programmes, and of innovative funding and delivery mechanisms (see Box 8), SSC from the Chilean government largely covers travel expenses for Chilean officials and suffers from budget constraints. Moreover, SSC is not managed, implemented or evaluated by development specialists: usually this falls to government officials in line agencies. In other words, international cooperation projects are allocated in addition to the everyday priorities and duties of staff, which risks them being deprioritised or lacking a medium- to long-term strategic approach.

### 5.1.2 Relations with development partners

Most bilateral donors ceased their development cooperation programmes with Chile, but they have been exploring different ways to collaborate with the Chilean government on development cooperation. Ending the bilateral programme did not end development cooperation between Chile and its development partners. Albeit at smaller volumes, Germany, Spain and the UK, for example, changed their development cooperation modalities, leveraged regional approaches and boosted triangular cooperation to continue, even indirectly, projects with Chile. In the case of the UK, the ad hoc instruments for post-development cooperation engagement – the Prosperity Fund – had a few projects that also benefited Chile. While bilateral development cooperation from Germany's BMZ ceased to be an option after 2008, projects on climate change and the environment continued with support from its Environment Ministry (BMU). Chile's graduation from the list of ODA-eligible countries meant that in these countries, not all government departments could approve projects directly benefiting Chile. It also entailed that support could not be counted as ODA (projects approved before 2018 will be completed but not renewed). This was the case of the UK Prosperity Fund (no longer eligible because of the ODA graduation) and assistance from the German BMU to Chile.

Some bilateral donors, however, will continue their development programmes in Chile, even if not ODA-eligible. For example, the Japanese government recognises that there are a few areas in which Chile could benefit from development cooperation and from a strategic partnership

with Japan. Its development cooperation, through JICA, will therefore continue operating in Chile independently from ODA eligibility. Yet Japanese development cooperation has also changed: it now focuses on technical cooperation, research programmes in science and technology, environment and disaster risk reduction. Japan also supports Chile in South–South and triangular cooperation, with an increasing share of counterpart funding by Chile (including refundable technical assistance managed by the Japanese Ministry of Foreign Affairs). In 2012 the abrupt closure of the EU programme led to intense lobbying by the Chilean government – notably AGCID – which remained keen to cooperate with the EU. In 2017, the EU and Chile convened a meeting on development in transition that resulted in the creation of a new EU-led facility,<sup>23</sup> the Regional Facility for Development in Transition for Latin America and the Caribbean, to support countries transitioning from ODA in Latin America. While the facility has a relatively small allocation for Latin America as a whole, the EU’s commitment to re-engaging with countries in transition, including Chile, was seen as a major success for countries that, despite their higher income status, still face continued structural challenges (EU, 2018).

Multilateral organisations still operate after the graduation from ODA, but their modalities have evolved. In the introduction to this paper, we outlined how the IADB and World Bank lending policies and eligibility are determined by different rules than those for ODA graduation. Both institutions still lend largely on non-concessional terms (grants are exceptions) and provide technical assistance. However, their modalities in Chile have changed. First, the number of requests from the Chilean government for ‘reimbursable assistance’ (in World Bank jargon) and ‘fee for services’ (as denominated in the case of the IADB) have risen in recent years. The Chilean government pays directly for

the technical assistance projects (governments reimburse the international financial institution directly rather than part of its resources) and can tap into the cross-country, in-depth knowledge and expertise of both these institutions. The Chilean government has been working increasingly with the international financial institutions towards the generation of global public goods, like knowledge and research. One example of this is the joint World Bank and Chile Government Regional Research and Development Centre (see section 5.3.1 for further detail). The share of assistance towards private sector operations in the international financial institution portfolio has expanded too, with IFC operations to Chile exceeding IBRD programmes since 2012 (with the exception of 2017).

Since the 1960s, Chile has hosted the UN Economic Commission for Latin America and the Caribbean (ECLAC) – although the organisation serves the region rather than solely Chile. We also learnt that UNDP has been very active and pivotal in the areas of climate change and the management of the Chile Fund. More broadly, although the UN system is present in Chile, its role has not changed because of the country’s transition from aid and ODA graduation: it was small both before and after changes in ODA eligibility criteria.

## 5.2 Cooperation with development partners

### 5.2.1 Planning, implementation and financing needs for sustained development

While needs and requirements for development cooperation might not differ across the government, their approach to financing does. On the one hand, line agencies and the Ministry of Foreign Affairs consider the Sustainable Development Goals framework the basis for development partners to continue their programmes, with Chile still having a series of structural vulnerabilities that would benefit

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23 This facility aims to support the design and implementation of public policies in the context of the sustainable development agenda in Latin America and the Caribbean, focusing on countries moving towards higher levels of income per capita. The proposed 2021–2027 Multiannual Financial Framework of the European Commission (yet to be approved at the time of writing) requires at least 92% of the Commission’s external assistance to be counted as ODA, allowing the space for initiatives also in countries no longer included in the list of ODA recipients.

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from international assistance. On the other hand, the Ministry of Finance has scaled up its demand for reimbursable technical assistance, as mentioned, being less concerned – if not at all – about the graduation of Chile from the list of ODA-eligible countries.

Across the Chilean government, technical assistance (not financial assistance) in areas with structural vulnerabilities is strongly valued and demanded. In nearly all the interviews we conducted, the key demand and need expressed by the Chilean government to manage its sustainable development was technical assistance. Rather than the implementation and financing, where there is already capacity across government, the main needs are in the areas of project cycle planning and strategy. The type of demand for technical assistance mentioned during the interviews was very specific, sophisticated, often focused on regulatory frameworks and legislation. Its main purpose was to learn from the experience of countries that have already managed similar projects and developed expertise (for example, renewable energy projects in Germany, to which interviewees often referred). In some cases, technical assistance meant funding highly innovative studies, which one respondent explained are often challenging for staff back at development agency headquarters, and the development of pilot projects in weak areas. Requests for technical assistance are made across the different stages of the project cycle – inputs and ideas, project level, experts and exchanges.

The rising demand for reimbursable technical assistance from the Ministry of Finance to the international financial institutions also reflects changing needs and requirements across the Chilean government for development cooperation. Furthermore, the Chilean government continues borrowing from such institutions, despite their loans being, at times, more expensive than market conditions. This is because across the Chilean government, the technical cooperation, knowledge and expertise that come with borrowing are highly valued.

‘Development cooperation 2.0’ has similar themes but different quality and depth, as well as

particular focus on environmental issues. Some respondents spoke of a new era for development cooperation to Chile – a ‘development cooperation 2.0’. The transition from aid and the greater fiscal space that the Chilean government had created meant that areas for development cooperation became increasingly specific and were moving away from the social sectors. Priorities for development cooperation – often described in government strategies as areas of structural weaknesses – mainly relate to the environment (including renewable energy and solar power, green mining and disaster risk reduction); private- and public-sector reforms; support to SSC and triangular cooperation; and the social sector issues such as aging population and disability. With its capable civil service and stable economy, donors often consider Chile a pilot case for testing new approaches to development cooperation, which can then be replicated in other countries.

Development partners and the government should improve communication and planning before the transition from aid and should also clarify the criteria triggering this process. Neither the Chilean government nor its development partners had an explicit strategy to manage the transition from aid. For the government, strategies in the lead-up to graduation tended to focus on advancing Chile’s economic development rather than maintaining relations with donors (section 3.5). Donors rarely developed strategies or communicated decisions across the Chilean government (or, where they did, they did not verify that the message was well understood). Often, announcements about the phase-out of bilateral cooperation programmes were made rapidly by donor country offices after communication from their headquarters. One of the recommendations that emerged most frequently in interviews was the need to communicate to all relevant stakeholders in the government clearly and in advance the message about the withdrawal of development cooperation. While some donors closed their development cooperation programmes in the late 2000s, the Chilean government only realised the implications of transition from aid in 2013

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when the European Commission announced that Chile, together with other Latin American countries, was no longer eligible for the DCI. We understand there was no formal communication about the graduation from the list of ODA-eligible countries either, and somehow came as a surprise to the Chilean government. The eligibility criteria for some funds is also open to interpretation (e.g. for the GCF, a country must be a developing country, which is not clear in the case of Chile).

### 5.2.2 Forms and focus of development cooperation

Collaboration between Chile and development partners now calls for a creative approach to international cooperation instruments. Being the first Latin American country to graduate from the list of ODA-eligible countries<sup>24</sup> means that the Chilean government and its development partners need to be more creative in exploring options to support the transition from ODA and beyond. Modalities include an increasing share in the Chilean government's co-financing arrangements, which adds an element of project sustainability once donor assistance is phased out. It also includes the provision of seed financing to support pilot projects and the promotion of knowledge-sharing initiatives including workshops (also co-funded by the private sector), scholarships and peer-to-peer exchanges. In some cases, interviewees mentioned that the lack of funding for travel expenses was a challenge for the participation of government officials in training courses and events abroad. Mentions of other support were very specific, including projects on local bond markets, political risk guarantees and catastrophe-related bonds.

Scientific exchanges offer areas for future collaboration. Beyond the areas already mentioned, notably environment and climate change, renewable energy and global public goods, government officials and development partners noted that strengthening scientific cooperation (in the area of astronomy among

others) presented an opportunity for future collaboration beyond development cooperation. Several government officials were concerned about the impact of the graduation from the list of ODA-eligible countries on student exchanges and scholarships, which justified some requests for the creation of networks and frameworks like the EU's Erasmus programme.

## 5.3 Cooperation beyond aid

### 5.3.1 Expectations for cooperation beyond aid

To fill the gap in knowledge and expertise, the government has been strengthening its role as a regional hub and as a supporter of multilateralism. Both the Chilean government and its development partners have identified opportunities to continue promoting technical assistance. First, the Chilean membership to the OECD since 2010 offered a first-hand opportunity for peer learning, which is the main purpose of the organisation itself. Second, together with Costa Rica, Chile was planning to host the 25th Conference of the Parties to the UN Framework Convention on Climate Change (COP25) in December 2019. This is an opportunity to set the agenda on climate change, learn from other countries' approaches and push for reforms on renewable energy. Several interviewees stressed how the Chilean government has been leading the debate on the implementation of carbon markets in the region. Finally, the World Bank formally opened the first ever country office in Chile in December 2017. Since then, Chile has hosted a Regional Research and Development Centre, a partnership of the Chilean government with the Development Economics Vice-Presidency of the World Bank, the third such centre.<sup>25</sup> The research programme has a regional and international breadth, rather than a focus on Chile. Core activities include advancing the work on internationally recognised datasets, like the Doing Business indicators, as well as research on financial sector development and social protection in middle- to high-income economies.

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24 Together with Uruguay.

25 The other two are in Italy and Malaysia.

When asked about the future of bilateral and multilateral aid to Chile, most interviewees across government stressed that development partners should support Chile in becoming a hub and leader in the region, specifically in areas like renewable energy, climate change, waste management and circular economy.

Leverage the multilateral system. When bilateral development cooperation projects were no longer an option, bilateral development partners reverted to the multilateral system – indirectly via funding IADB or World Bank projects (beyond, of course, core funding) and via ECLAC (e.g. the BMZ–CEPAL partnership on Agenda 2030 in Latin America integrates selected elements of the 2030 Agenda for Sustainable Development into national strategies and action plans and implemented by GIZ). The IADB does not have a graduation policy and the World Bank is very unlikely, in the medium term, to graduate Chile from IBRD (e.g. South Korea did so only in 2017; see Prizzon (2016a)). While lending is expected to fall, the engagement with the MDBs will continue both on research (again the case of the joint research centre) and on reimbursable technical assistance. During the mission, we understood that options to collaborate for project design and implementation in Chile between bilateral partners and MDBs directly were explored.

In the post-ODA period, Chile's triangular cooperation activities are a valued form of future development engagement. While direct bilateral development assistance to Chile has been phased out by several development partners, Chile can still indirectly benefit from it via regional development cooperation programmes and triangular cooperation. Such activities not only allow Chile to support the development of neighbouring countries and deepen regional integration but have become a key outlet for maintaining relationships with traditional donors

following graduation. Indeed, moving forward, Chile aims to continue developing its triangular cooperation programme and its reputation as a reliable development partner within the region.

### 5.3.2 Forums and modalities for cooperation beyond aid

While not being the focus of most of our interviews, the engagement in global policy areas and global public goods reflect the strategy towards multilateralism that the Chilean government has promoted since the transition towards democracy and have become more prominent in recent years.

Chile continues to seek relations with multilateral donors post-graduation as they provide a forum for engaging with traditional donor partners on key global challenges and issues. Chile values the avenues for interaction provided via its membership in both the OECD and Pacific Alliance. For Chile, both groups offer opportunities to collaborate with former partners on issues that remain relevant both to Chile and the international community, including climate change and environment-related issues. Going forward, Chile's support for multilateralism and global engagement will continue as it prepares to host the COP25 in December 2019.

Climate change is considered a bipartisan priority area. Together with Costa Rica, as we mentioned, Chile was planning to host the deliberations of COP25 in December 2019, putting the country at the forefront of the debate on climate change – also in a region where opinions on causes and scale of the impact of climate change are starting to diverge. The other main forum for policy dialogue, mentioned many times in interviews, was the Pacific Alliance (an initiative of regional integration comprised by Chile, Colombia, Mexico and Peru, officially launched in 2011) rather than other existing regional networks and alliances.

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# 6 Conclusions

Chile has played the dual role of development assistance recipient and provider, moving away aid and expanding its outward cooperation. The government and its development partners have already explored concrete options to collaborate beyond ODA-financed programmes before and especially since graduation in January 2018.

From our analysis of Chile's experience, several lessons emerge for governments transitioning from aid and for development partners cooperating throughout changing relations and approaches.

## 6.1 Managing the transition from aid

**Governments may want to have a long-term plan for their transition from aid.** During the late 1990s the Chilean government actively sought new ways of engaging with donors to maintain relations as it progressed towards graduation, including trilateral cooperation, and it recognised the changing relations with development partners (the future graduation from ODA). In the 2000s this approach changed: Chile's sustained economic development became a key priority for the government as it sought to attain high-income status. Along with the fact that aid only marginally contributed to the government budget, Chile's role as a recipient was far from prominent in the country's national strategy and led to the late realisation of and relative 'unpreparedness' for the implications of its ODA graduation.

**Governments may want to establish an institution that leads and manages development cooperation flows and projects.** This institution could coordinate across government, develop

expertise and have a dual mandate to manage the country's transition from aid. AGCID's creation played a pivotal role in Chile's transition from aid recipient to provider and in the creation of innovative mechanisms. AGCID manages relations between development partners and Chilean government line agencies (with international cooperation leads in most of these) as well as managing its relationships with recipient countries and other partners in Latin America. In 2005 the responsibility for AGCID moved from the Ministry of Planning and Social development to the Ministry of Foreign Affairs. This marked a shift in priorities for the Chilean government, which was increasingly focused on becoming a fully fledged provider country, with development cooperation explicitly being included among the pillars of foreign policy.

**Governments could consider innovative modalities for SSC.** Chile experimented with new approaches to SSC, including the Chile-Mexico Fund and the Chile Fund against Hunger and Poverty, managed by UNDP and funding Chile's broader Unitaid engagement.

**NGO capacity should also be supported in the transition from aid.** Chile's NGOs played an important and specific role as recipients of development cooperation, and implementers of development programmes throughout the Pinochet regime. Yet they experienced the transition from aid far earlier than the government; by the 1990s, the return of democracy saw donors increasingly allocating support to the government in efforts to deepen democracy. While NGOs continued to receive some funding, the levels of support declined drastically, contributing to an early funding crisis.



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## 6.2 Cooperation with development partners

**Governments and development partners could expand technical assistance in specific areas during the transition process, leveraging it to learn from other countries and their approaches.** A country like Chile has sufficient fiscal capacity to support its national budget and its investment programmes, but its economy still suffers from a series of structural vulnerabilities that would benefit from partners' development cooperation. Technical assistance (not financial assistance) in areas with structural vulnerabilities is highly valued and in demand across the Chilean government. Technical assistance should foster learning from the experience of those countries that have already managed similar projects and developed expertise. This is also the reason why OECD membership is highly prized: peer-to-peer learning is the organisation's primary mandate.

**Development partners and international organisations should communicate transition plans in advance and across government departments, informing them when their ODA eligibility will end.** While a few donors closed their development cooperation programmes in the late 2000s, the Chilean government only realised in 2013 the implications of transition from aid when the European Commission announced that Chile, together with other Latin American countries, was no longer eligible for the DCI. We understand there was no formal communication about the graduation from the list of ODA-eligible countries and that came as a surprise to the Chilean government.

**Financial assistance from development partners can continue even beyond ODA.** Some donors continue their development programmes in Chile, even if not ODA-eligible. Japanese development cooperation, through JICA, will operate in Chile independently from ODA eligibility. This is because the Japanese government recognises that there are a few areas in which Chile could benefit from development cooperation and from a strategic partnership with Japan. Having initially left Chile when the country graduated from DCI in 2013, the EU later re-established development cooperation programmes under the new Regional Facility

for Development in Transition. **Governments may boost resources to match the ambitions of its SSC and programmes.** SSC from the Chilean government largely covers travel expenses for Chilean officials and suffers from budget constraints. Furthermore, SSC is not managed, implemented and evaluated by development specialists; usually government officials in line agencies are the project implementers. In other words, international cooperation projects are additional to the everyday priorities and duties of staff, which risks them being deprioritised or lacking a medium- to long-term strategic approach.

**When ODA is no longer an option, governments and development partners could leverage the multilateral system.** Even though several development partners ceased their new development cooperation programmes (or did not renew them) once Chile was no longer eligible for ODA, the country remains eligible for lending and support from multilateral development banks. These flows are not accounted as ODA but are often still provided at more favourable conditions than market rates. Chile can also benefit from the expertise of multilateral development bank staff by paying directly for their services (reimbursable or fee-for-service assistance). This support may help the country become a regional hub (e.g. with the Regional Research and Development Centre, partnership between the World Bank and Chilean government) and contribute to the global public good agenda – especially in relation to climate change. Bilateral development partners still indirectly support Chile (via the MDB capital contributions). During our fact-finding mission, we understood that options to collaborate for project design and implementation in Chile between bilateral partners and MDBs directly were explored.

## 6.3 Cooperation beyond aid

**Governments may leverage regional programmes and triangular cooperation as instruments for partnerships beyond ODA flows.** While direct bilateral development assistance to Chile has been phased out by several development partners, Chile can still indirectly benefit from it via

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regional development cooperation programmes and triangular cooperation. Chile is an active player in both these areas.

**Participation in international organisations and forums can be a key way to maintain and develop post-ODA relations, especially on issues such as climate change.** The Chilean government has promoted a strategy towards multilateralism since the transition towards democracy and this

has become more prominent in recent years. Again, joining the OECD in 2010 also offered opportunities for peer learning and knowledge-sharing in many domains. Together with Costa Rica, Chile was planning to host COP25 in December 2019. Development partners should support Chile to become a regional leader in areas like renewable energy, climate change, waste management and circular economy.

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# Annex 1 List of interviewees

**Table A1 List of institute, name and job title of interviewees**

Institution	Name	Job title
AGCID	E. O'Farril	Jefe de Departamento. Cooperación Bilateral y Multilateral
Ministerio de Desarrollo Social	J.L. Balmaceda	Asesor para Asuntos Internacionales
Ministerio de Desarrollo Social	H. Acuña	Coordinador para Asuntos Internacionales Unidad de Asuntos Internacionales Gabinete Ministerial
Ministerio de Desarrollo Social	L. Armanet	Asesora de Gabinete
Chilean National Service for Older Persons	J.E. Rogers	Jefe de Gabinete
Instituto Nacional de la Juventud	L. López Farías	Encargado Relaciones Internacionales
Senadis	F. Giménez	Asesora Gabinete
Ministerio de Desarrollo Social	L. Armanet	MDS – Gabinete/Asesora Ministro
FOSIS	C. Catipillán Pardo	Departamento de Cooperación Internacional
FOSIS	C. Polloni Erazo	
FOSIS	P. Díaz	Subdirectora Programas
Ministerio de Medio Ambiente	M. León	Jefa Oficina Asuntos Internacionales
Ministerio de Energía	I. Vargas Rivas	Coordinador de Asuntos Bilaterales, Oficina Relaciones Internacionales
Sercotec	M. Ulloa Venezuela	Gerente de Programmas
Sercotec	J. Camposano Leyton	Jefe Unidad de Competividad y Innovación
Ministry of Foreign Affairs	J. Cordano	Environment Directorate
World Bank	F. Winter	Country Officer
GIZ	N. Bartelt	Directora Fondo regional para la cooperación triangular en América Latina y el Caribe
GIZ/CEPAL	M. Häbig	Principal advisor ECLAC-BMZ/GIZ programme
KfW	A. Knäble de Revollo	
EU	S. Agüero	Agregada de cooperación, Delegación de la UE en Chile
Mexican Embassy	A. Arriazola	Jefe de Cancillería
América Solidaria	S. Zulueta	Executive Director
América Solidaria	T. Reyes	Director Ejecutivo (Chile office)
Fundación para la Superación de la Pobreza	R. Fresard Cáceres	Directora de Cooperación Internacional
Fundación para la Superación de la Pobreza	L. Moreno	Executive Director
Asociación Chilena de ONG ACCION	N. Sautejeau	Coordinador de Incidencia y Relaciones Internacionales





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