

Concessions in Chile: Where Are We Heading?

Due to the existing infrastructure deficit and the generally positive results observed to date in concession matters, it is imperative to continue strengthening the public-private relationship. In the past, the concession system allowed reducing the infrastructure deficit, and now it is necessary to go on, especially in view of the additional needs arisen as a consequence of last February's earthquake (estimated in approximately US\$4,600 millions).

The important infrastructure deficit which Chile presented at the beginning of the nineties and the shortage of public resources to face it, gave the initial impulse to the public works concession system in the country.

This system offers the advantage of incorporating the private sector, through a public-private association, to the development and provision of public infrastructure. The concession mechanism allows financing work of high social profitability with private resources, making them economically profitable by way of recovering the investment through payments for using the infrastructure.

After fifteen years of its first application, there is no doubt that the concession system in Chile has been successful. This mechanism has allowed building great public works, which would not have been possible with fiscal resources, enabling, at the same time, to liberate greater resources to be used in other areas of social investment.

Through this system, the investment in infrastructure has increased considerably, making important transformations in urban and rural road infrastructure, airports, ports, reservoirs, prisons, sport facilities and others. Therefore, since the award of the first work in 1993, more than US\$11,000 millions have been invested under the concession system.

The positive performance of the concession system of public works in Chile has not only awakened a general approval, but it has also been recognized

at international level. In particular, according to a study undertaken in 2007 by the World Economic Forum on the appeal of private investment, Chile appears as the only country in Latin America with global category, highlighting also the high satisfaction degree of the public concerning the services of the private infrastructure.

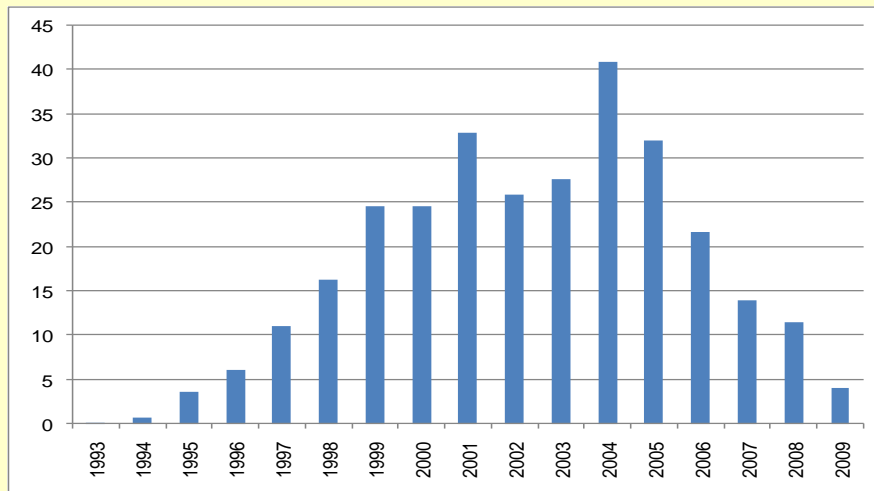
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Chart Nr 1

ANNUAL INVESTMENT FLOW IN CONCESSIONS (UF, MILL)

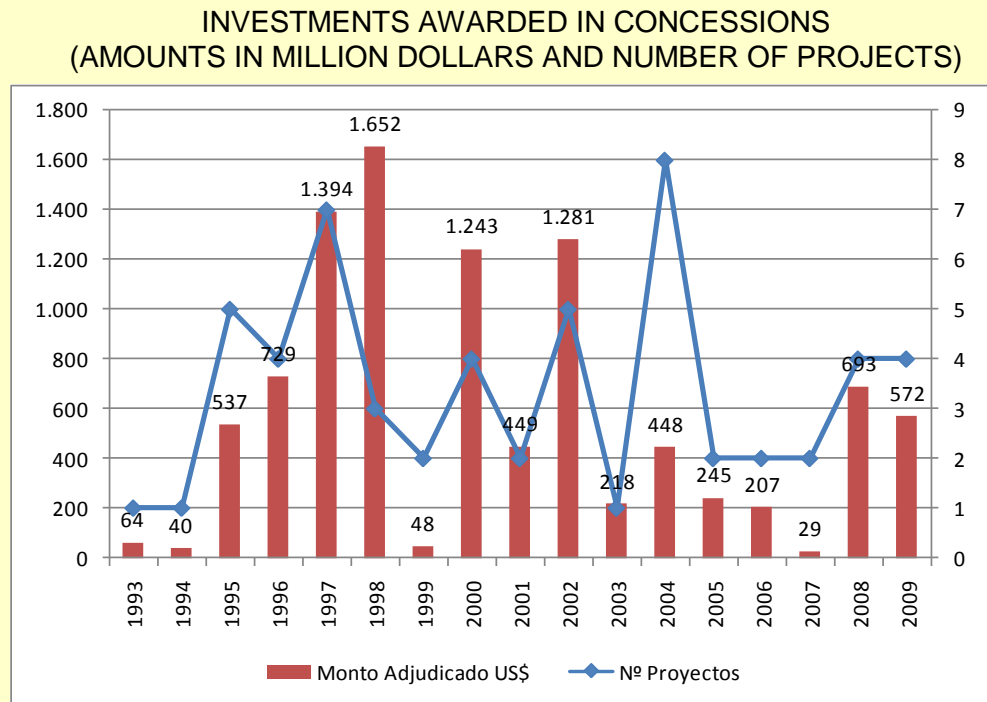


Source: Cámara Chilena de la Construcción

Nevertheless, and in spite of the system's benefits, the last years have shown a loss of dynamism in the concession industry, with a minimum number of concessions achieved in 2007. Likewise, the annual investment amounts in the concession system have also shown a decreasing tendency in the last years. The main explanation for this concerns the low amount of investments effectively awarded.

The slower rate of investment in the conceded projects is especially startling in view of the deficits still existing in infrastructure matters, considering that this is a key determinant for the country's development in different areas. In particular, the deficit in the infrastructure investment for the period 2010-2014 is estimated in approximately US\$40,068 millions by private sources; the most worrisome deficits are observed in urban and interurban road construction and in the electric sector.

Chart Nr 2



Source: Cámara Chilena de la Construcción

Table Nr 1

INVESTMENT REQUIREMENT 2010-2014ⁱ

Sector	Balance 2010-2014			Balance 2008-2012
	Total	Earthquake	Net	
Urban road construction	8,434	556	7,878	6,698
Electric sector	9,990	360	9,630	3,470
Port infrastructure	2,286	470	1,816	850
Water	3,390	323	3,067	4,500
Interurban road construction	10,156	150	10,006	5,871
Airports	462	21	441	295
Hospital and prison infrastructure	5,350	2,780	2,570	840
Total	40,068	4,660	35,408	22,434

Source: Cámara Chilena de la Construcción

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In this perspective, it is evident that we must advance towards enabling the private participation, both in the traditional sectors where the concession system has operated until now, and in the development of mechanisms to extend its application to new lines of business.

Expected Progress

The current administration has assumed the challenge to further promote the concession system, which entails an ambitious project portfolio for the period 2010-2014 presented a few weeks ago by Hernán de Solminihac, Ministry of Public Works (MOP), which considers investments for over US\$8,000 millions. Additionally, it was communicated that there is a project portfolio being studied, which would increase the concession investment to US\$11,739 millions during these four years.

The interesting thing of the concession program proposed by the MOP lies not only in the amounts involved, but also in the opening of new opportunities in sectors that have not been explored to date. As a matter of fact, among the programs being studied, there are novel proposals concerning concessions of public spaces such as urban parks and civic districts in different cities.

The former is particularly relevant because it means to penetrate new areas – such as the optimization of public space – and to give the opportunity to the private sector to manage certain resources more efficiently and to put them at the citizen's disposal with a higher quality service than the actual one with public resources.

In the case of the resources for public spaces for both city and territory, further progresses could be achieved by allowing the private sector to administrate and manage the public resources, for a definite and limited time span, obtaining in return the possibility to fix their service rates so that they may have a return on their investments. Along these lines, there are interesting proposals that would allow improving the quality and number of public spaces in the cities. In fact, among the areas where it would be possible to extend the concession systems we can mention the generation of new public spaces in the coast borders, national parks concessions, site museums, and public tourism developments that could be subject to concessions in urban hills and mountain slopes, among others.ⁱⁱ

Table Nr 2

CONCESSION PROGRAM 2010-2014

SUMMARY	Mill. US\$
Calls for tender 2010(*)	523
Calls for tender 2011	1,890
Calls for tender 2012	1,441
Calls for tender 2013	2,324
Hospital Programs 2011-2013	1,338
Prison Programs II-B 2011-2013	245
Transantiago Program 2011-2013	248
Subtotal	8,009
Projects being studied	3,730
TOTAL	11,739
(*)In addition to projects in tender process for US\$1,062 mill.	

Source: Ministry of Public Works

Likewise, the concession system should also begin to extend to the local sphere, where the town halls could outsource (or concede) an increasingly wider range of services to the community. As a matter of fact, it is in the scope of the local infrastructure provision that the town halls have more advantages than the central government, in relation to its adequate and pertinent provision, and moreover, they are the ones who bear the costs of maintenance of the parks and local infrastructure.

To date, thanks to the concessions the town halls have been able to offer better services to the community – such as underground parking and

services in public spaces (e.g. food and trade), while at the same time they get fresh resources to take care of other multiple needs of the people. The same seems worthy of consideration when it comes to provide the neighborhoods with more acceptable environments, better education alternatives, higher security systems, etc., which should broaden the action horizons of the town halls, based on the concession system. In this perspective, we could even consider outsourcing the integral administration and management of urban sectors in their communes by way of concessions.ⁱⁱⁱ

Conclusion

The concession system should progress not only towards a greater urban and interurban road construction, prisons, airports and hospitals, as it is right now, but also to new areas. This means to advance some steps towards the concession of the facilities' management, and to the service delivery to other sectors whose deficits deserve it, as in the case of schools, urban spaces, imprisonment centers for minors, and many others.

Increasing the concession system will enable to make further progresses in the construction and reconstruction of infrastructure, and to the service provision, adding financial resources and management to the development of our country.

The result will be reflected in the investment growth, productivity and sustained development, as well as in the well-being of all Chileans.

ⁱ The analysis differs from the Government's estimations, because it only considers a subgroup of the economy sectors, so this quantification is lower than the officially estimated.

ⁱⁱ For further detail on these proposals, see Sepúlveda, A. (2009) "Concesiones y Espacios Públicos" in "Concesiones: Agenda para el 2020." Libertad & Desarrollo.

ⁱⁱⁱ For further detail on these proposals, see Horst, B. (2009) "Concesiones Integrales: Gestión de Barrios" in "Concesiones: Agenda para el 2020." Libertad & Desarrollo.