

# "Chile Public Investment: Building the Future"

Hugo Arancibia  
Ministry of Planning  
Seoul, November 21, 2008

# INDICATORS

<b>INDICATORS</b>	<b>2005</b>	<b>2006</b>	<b>2007 (Est.)</b>	
<b>GDP per Capita</b>				
-At constant Prices, Dollars	<b>7,040</b>	<b>7,214</b>	<b>9,884</b>	
- At Purchasing Power Parity, Dollars	<b>11,937</b>	<b>12,737</b>	<b>13,921</b>	
<b>GDP Growth (Real percentage change)</b>	<b>5.6</b>	<b>4.3</b>	<b>5.1</b>	
<b>Inflation Rate (%)</b>	<b>3.1</b>	<b>3.4</b>	<b>4.4</b>	
<b>Unemployment Rate (%)</b>	<b>8.0</b>	<b>8.3</b>	<b>8.4</b>	

# NATIONAL DEVELOPMENT STRATEGY

---

- The *National Development Strategy* aims to provide coherence to public and private decisions
- Development: a complex process which aims to produce and make compatible:
  - Economic growth
  - Social progress
  - Equity
  - Environmental sustainability
- A fundamental part of a Development Strategy is reliance on stable ground rules ==> establishing a consensus and generating State policies with greater social legitimacy.

# NATIONAL DEVELOPMENT STRATEGY

---

- Definitions and main **orientations** of the National Development Strategy.
  - Deepening and improving international integration for Chile.
  - **The private sector as the engine of productive growth**. The state assumes a subsidiary role and is only exceptionally involved in production activities.
  - The private sector should carry out its role in a competitive environment (internal and external markets).
  - The state should assume and improve its regulatory role, for example, in non-competitive markets, environmental aspects and specific areas (the financial system and labor markets, among others).

# NATIONAL DEVELOPMENT STRATEGY

---

- The State should play a promotional role in the innovation and productive growth of small and medium-sized companies.
- The State should promote equity (equal opportunities and overcoming poverty)
- Decentralization of State administration as part of a more general process of modernizing and democratizing society

# Results of the National Development Strategy

---

- Positive aspects:
  - Economic growth [around 5% on average over the past 5 years]
  - Investment rate [around 22% on average over the past 5 years]
  - Reduction in poverty and homelessness
  - Advances in social indicators
  - Fiscal balance
  - Foreign trade development
  - Influx of external capital

# National Development Strategy

---

- The Challenges:

- Maintaining accelerated development in the medium term: more and better investment, among other aspects.
- Ensuring equal opportunities and overcoming poverty.
- Reducing unemployment.
- Environmental issues.
- Infrastructure deficit. PPP
- Improving education and health.
- Improving urban and rural standards of living. PPP

# The National Investment System to the National Development Strategy

---

- Vital for Chile is to generate more and better projects (ideally with more than enough good projects so the Authority can decide)
- However, the ability of public investment to solve problems should not be overestimated (this represents between 16% and 18% approximately of the total investment in the country).
- In a context where resources are scarce, it is imperative to assign them efficiently; this implies good formulation and evaluation of projects.

# The National Investment System to the National Development Strategy

---

- Efficiency:
  - Technical-economic: more necessities can be resolved with the same resources ("Efficiency creates resources").
  - Political: Public efficiency justifies Government action and boosts democracy.
  - Ethical: Inefficiency contributes towards maintaining or deepening a lack of equal opportunities.
- **SOMEONE ALWAYS PAYS FOR THE INEFFICIENCY OF A PROJECT**

# NATIONAL PUBLIC INVESTMENT SYSTEM

---

- Establishes the basis and conditions on which the **public investment process is developed in the country** in such a way as to encourage those investment initiatives which are advantageous to society, according to Government policy.
- OBJECTIVES:
  - Support investment decision making.
  - Ensure efficient assignment of public resources, which are scarce.
  - Contribute in improve the general well being of the community.

# NATIONAL PUBLIC INVESTMENT SYSTEM

---

- Based on the assignment of resources for those public projects which have first been assessed from a socioeconomic point of view.
- Includes the complete investment process and allows:
  - the transformation of ideas into investment projects, and
  - differentiation between those projects which are justified and those whose execution is not recommended from the point of view of societal well being.

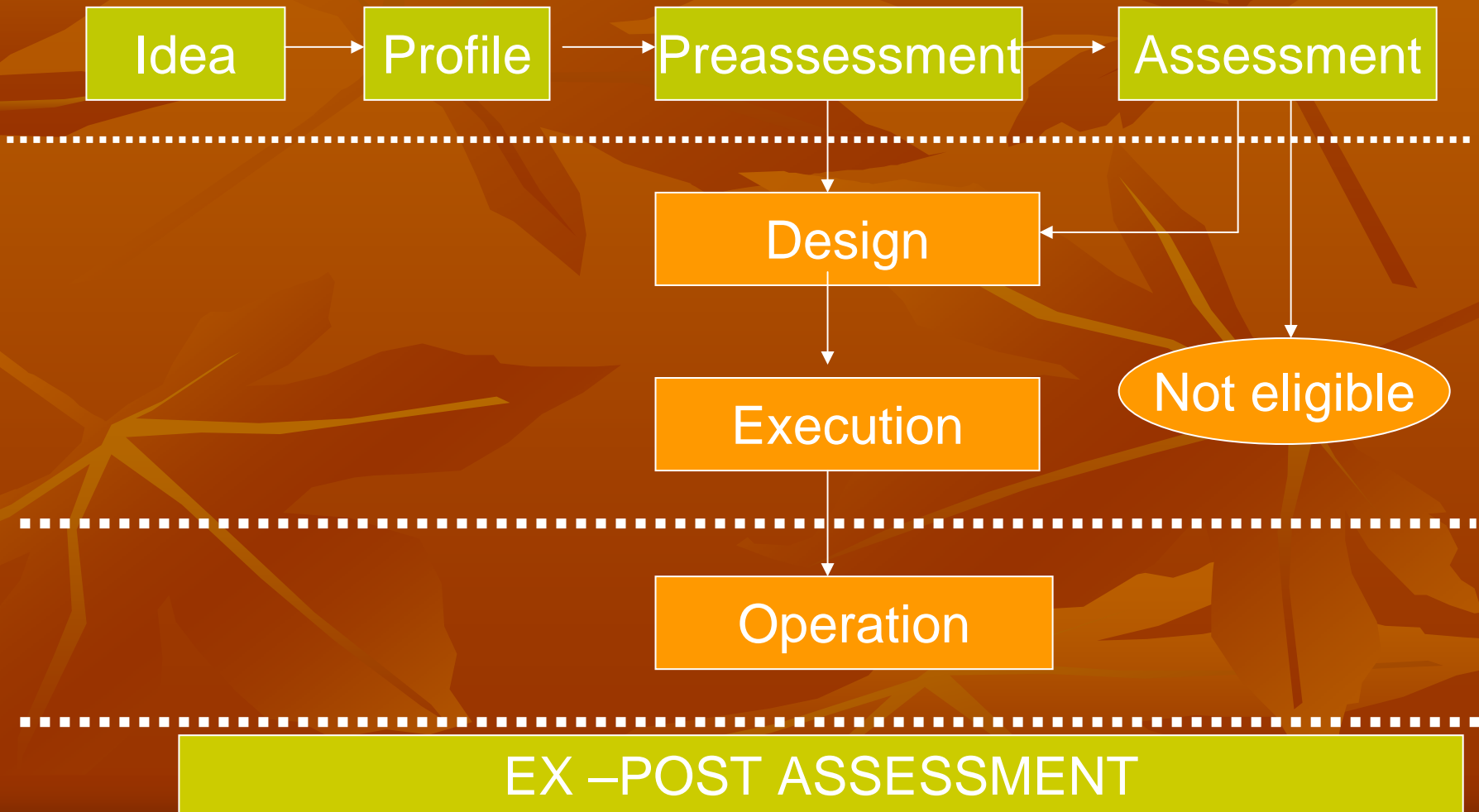
# NATIONAL PUBLIC INVESTMENT SYSTEM

---

- It is possible to identify three successive states through which all projects pass in the National Public Investment System:
  - Pre-investment
  - Investment
  - Operation

# NATIONAL PUBLIC INVESTMENT SYSTEM

## PROJECT LIFE CYCLE



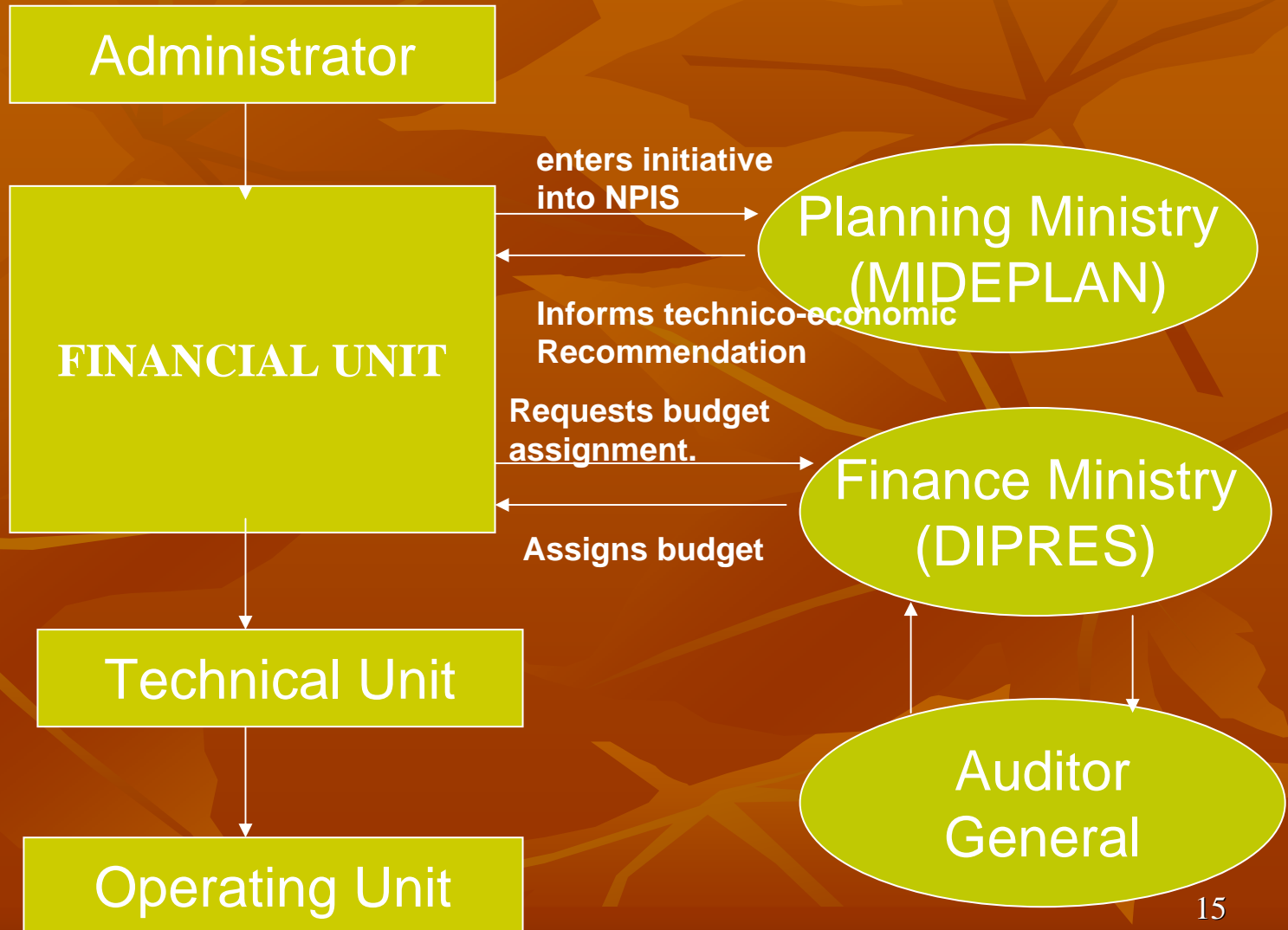
# NATIONAL PUBLIC INVESTMENT SYSTEM

---

- It is the role of MIDEPLAN and DIPRES to legislate and administer the National Public Investment System.
- The NPIS implements procedures which allow the coordinated participation of the distinct public institutions participating in the investment process, in its capacity as:
  - Administrator or Promotor
  - Developer
  - Assessment Unit
  - Financial Unit
  - Technical Unit
  - Operating Unit

# NATIONAL PUBLIC INVESTMENT SYSTEM

Recommended



# NATIONAL PUBLIC INVESTMENT SYSTEM

---

## ■ SUBSYSTEMS:

- 1) TECHNICAL-ECONOMIC ANALYSIS
- 2) BUDGET DEVELOPMENT
- 3) BUDGET EXECUTION
- 4) EX-POST ASSESSMENT

# TECNICO ECONOMIC ANALYSIS SUBSYSTEM

---

- Procedures and rules Manual (N.I.P.)
  - Set of rules, instructions and procedures which allow the homogenization and coordination of the identification, development, presentation and assessment process for the investment initiatives which are carried out by distinct public sector institutions.
  - It's objective is to guide the resource assignment process towards the most viable investment opportunities.

# TECNICO ECONOMIC ANALYSIS SUBSYSTEM

---

## Main Elements:

- Elaboration and annual revision of the rules and procedures regarding the input and presentation of projects to the NBIS (NIP manual)
- Revision and analysis of investment initiatives
  - Developed by the SERPLACs and the Investment Department of MIDEPLAN
- Design of Assessment Methodologies
  - Improvement and updating of current methodologies
  - Developing specific methodologies by project type

# TECHNICAL-ECONOMIC ANALYSIS SUBSYSTEM

---

- Calculating social costs

MIDEPLAN calculates, estimates and sets:

- Social discount rate (capital opportunity cost);
- Social value of the exchange rate (cost which means producing an external currency)
- Social value of labour (marginal cost which society incurs for employing....)
- Social value of fuel (transport projects)
- Social value of time taken (transport projects)

# TECNICO ECONOMIC ANALYSIS SUBSYSTEM

---

- Integrated Project Bank

A computerized information support system for the National Investment Systems whose objectives are:

- To establish a database for public investment projects at national, regional and municipal levels.
- Allow additional, specific analysis of public investment.
- Allow Ex-Post Assessment analysis of the investment initiatives.
- Training.
- <http://bip.mideplan.cl/bip-trabajo/index.html>

# BUDGET DEVELOPMENT SUBSYSTEM

---

- Objective – to assign financial resources to projects with sectoral or regional scope, and those linked to State companies which have been recommended by MIDEPLAN.
- Allows institutions the financial resources necessary for the execution of their projects.
- DIPRES is the institution responsible for developing the Public Sector Budget, which is ultimately approved as:
  - Public Sector Budget Law
  - Individually (in the case of State companies)

# BUDGET DEVELOPMENT SUBSYSTEM

- Budget discussion and assignment process
  - (January – February previous year)
    - Exploratory financial framework budget discussion. Budget Direction set up budgetary framework to sectoral and regional entities (Ministries, Regional Gov.)
  - January – December previous year
    - Investments initiatives input to the system by Regional Gov. or sectoral institutions. Cost benefits or cost effectiveness analysis made for each initiative
- Until December 10
  - Projects are analyzed at SERPLAC's and MIDEPLAN, review of the technical, economic and social aspects of the project.

# BUDGET DEVELOPMENT SUBSYSTEM

## ■ July – August

–Preparation and discussion of the Budget blueprint.  
DIPRES – MIDEPLAN – INSTITUTION;

## ■ September

–Approval of the the Budget Project at higher level

–Preparation of the Budget Law for approval by the  
National Congress (30)

## ■ October – November

- Congress discussion of the budget blueprint

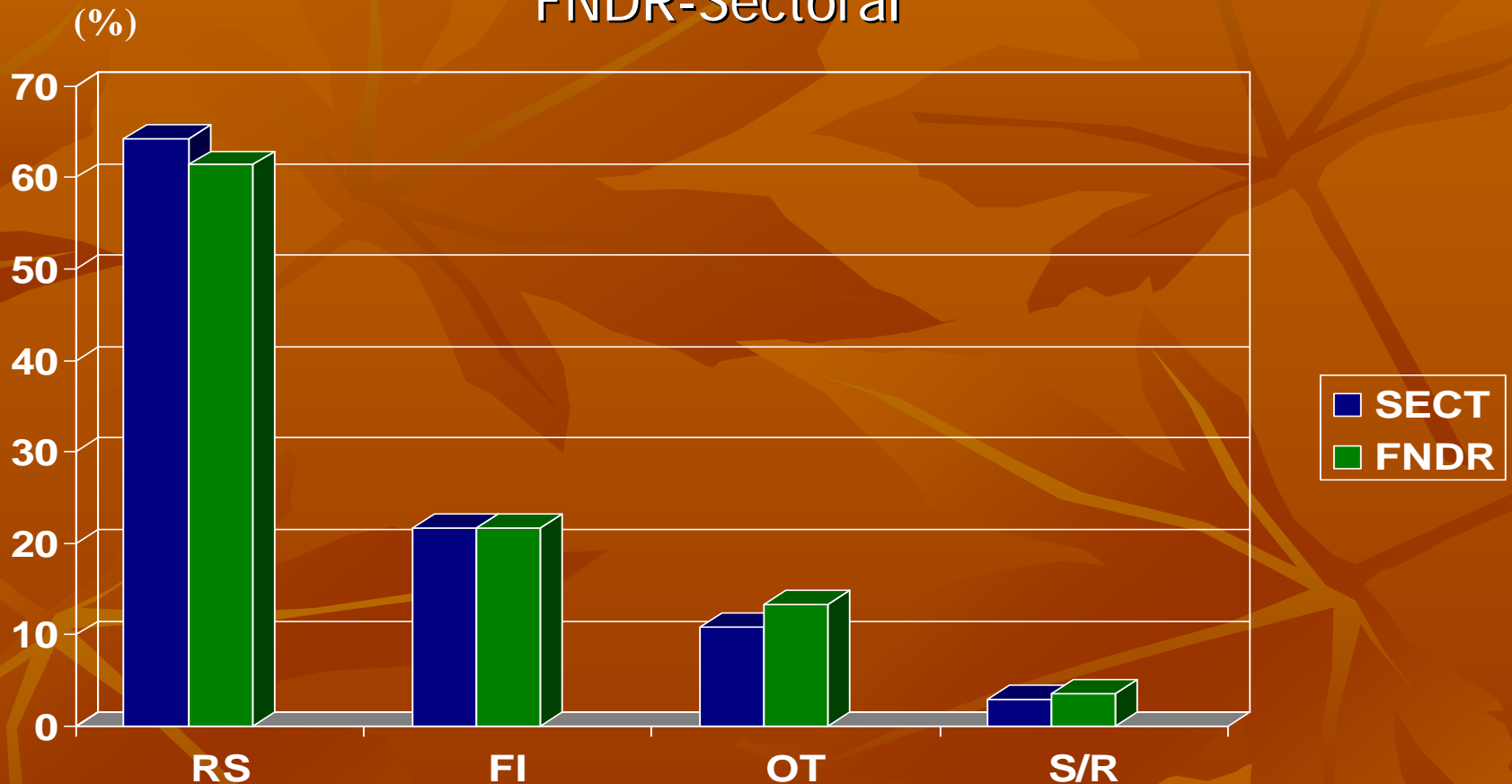
## ■ December

Budget Law effective

# Behavior of the NIS (2003-2006)

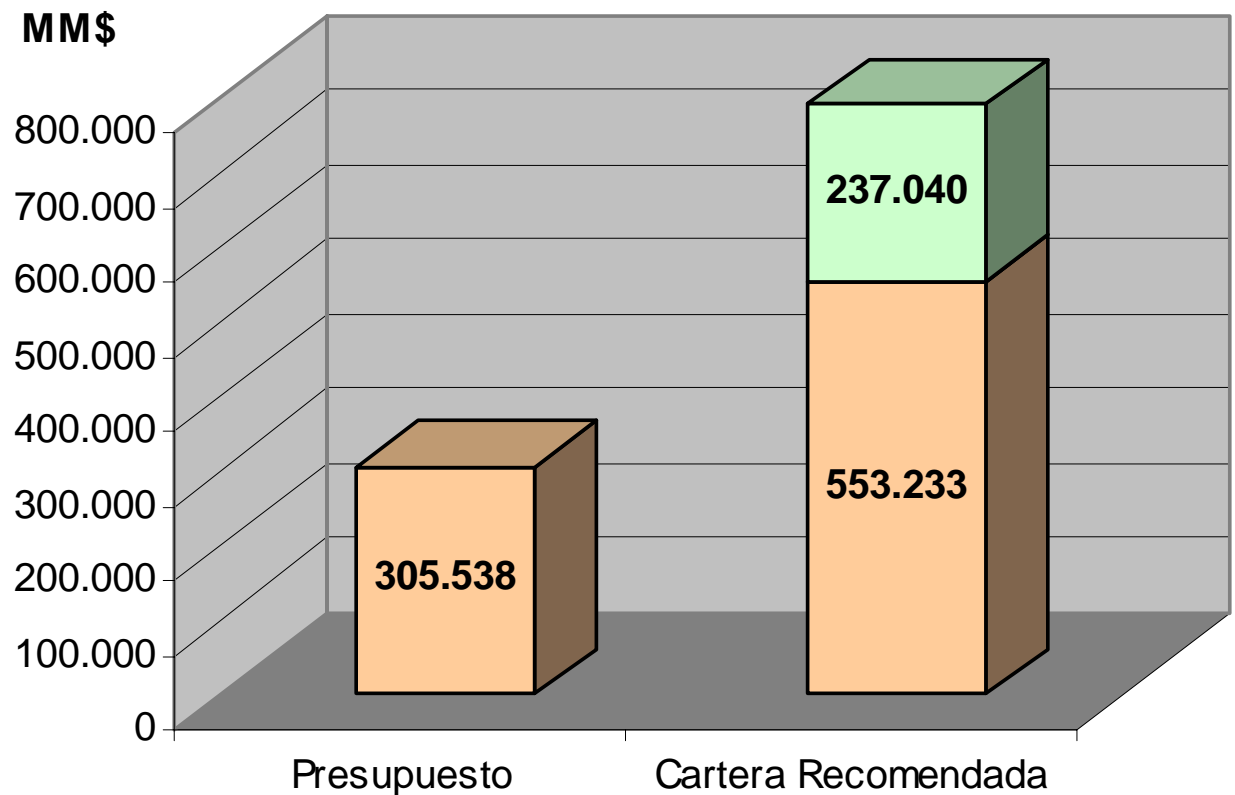
	2003	2004	2005	2006
% of new initiatives analyzed as RS for each budgetary process.	47%	51%	55%	55%
Amount of investment as RS / Total amount for new investment according to Sub-title 31 available in the Budgetary Act each year.	1.77	1.60	2.26	2.09
% of the public investment assessed by the NIS compared to the total amount of public investment to be assessed.	68.1%	67.7%	65.1%	60.4%

# Total Number of Initiatives Assessed (2007 Budgetary Process) FNDR-Sectoral



RS: Recommended without conditions  
FI: Information missing  
OT: Rejected for other reasons  
S/R: Not recommended at this point in time

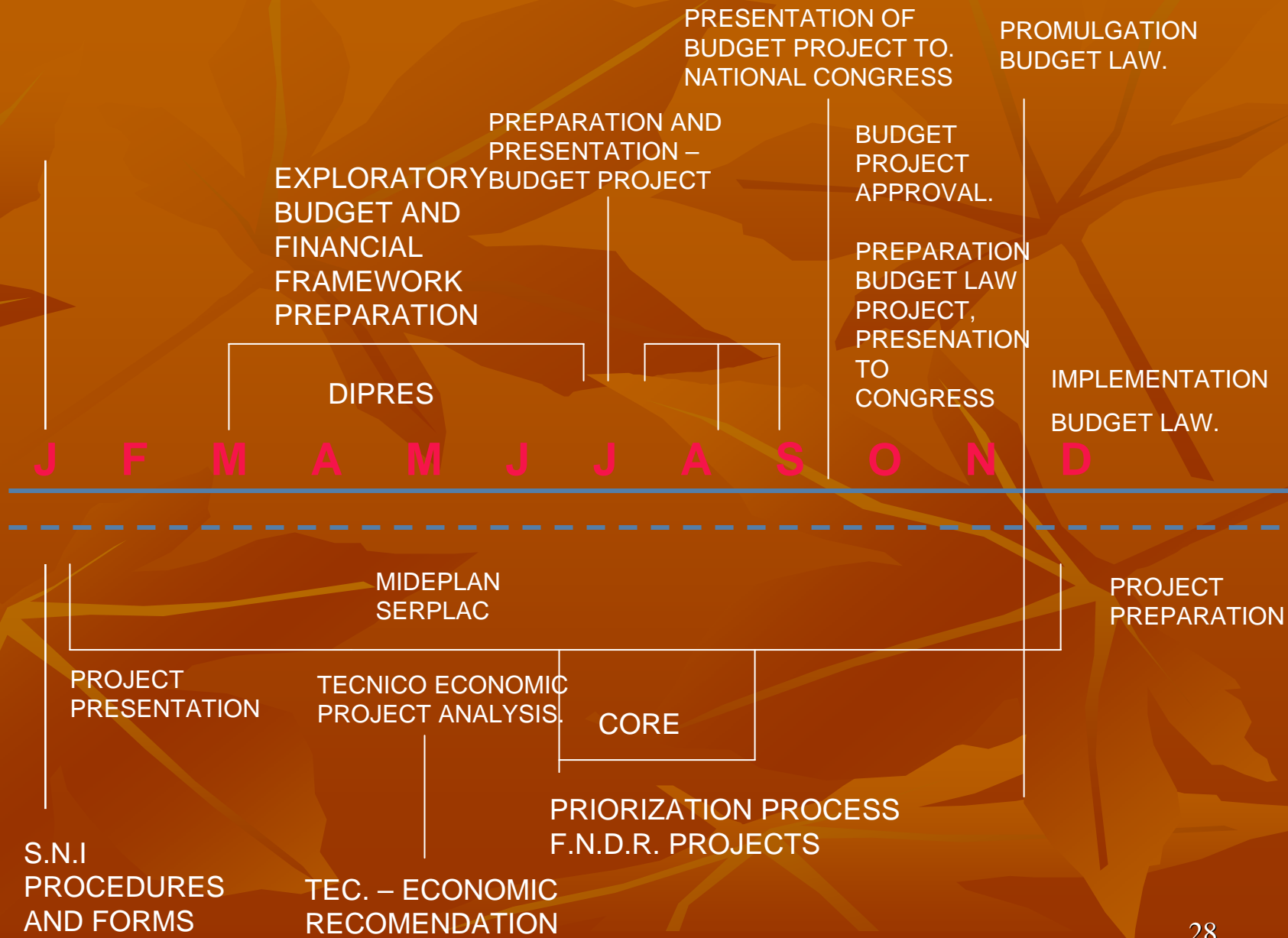
# Portfolio Recommended (RS) / Budget available (FNDR 2007)



# BUDGET DEVELOPMENT SUBSYSTEM

- F.N.D.R.
  - DIPRES prepares the budget framework
  - SUBDERE prepares the tentative global framework for each region
  - The Regions formulate and present Budget Projects
  - The regional framework is defined and distributed
  - The Budget Law is promulgated.

# BUDGET DEVELOPMENT CALENDAR



# BUDGET EXECUTION SUBSYSTEM

---

- Objective – to regulate and supervise public cost execution and its respective financing.
- DIPRES regulates and supervises public cost execution (without prejudice to the powers of the auditor general, CGR).
- Financial execution information is entered into the IPB, while physical progress information is managed manually.

# EX – POST ASSESSMENT SUBSYSTEM

---

- So far, this system has not been fully applied, only the following has been evaluated:
  - A sample of investment projects ended
  - A sample of investments programs
- General Objective:

Determine the efficiency and effectiveness of investment initiatives, by monitoring their administration and measuring the short, medium and long term results of the initiative with respect to the target population

# EX – POST ASSESSMENT SUBSYSTEM

---

- Specific objectives:
  - Complete the life cycle of a project and provide feedback to the N.I.S, thus contributing to it's improvement.
  - Assess the administration of the investment initiative in order to reformulate or improve it.
  - Identify and verify the short, medium and long term results of the investment initiative.
  - Support a continuing process of updating methodologies and development criteria and ex –ante assessment.
  - Establish a mechanism for compiling and obtaining continuous or periodic information which facilitates evaluative labor (tracking)

# The National Investment System at the service of the National Development Strategy

---

- The National Investment System (SNI) is a long-term construction process.
- The SNI is highly valued nationally and internationally (it is an asset to the country).
- The SNI needs perfecting. The changes that the country faces produce demands that the System must satisfy.
  - Income growth: number and variety of projects.
  - Population growth: changes in the epidemiological profile and in requirements to the government.

## Conclusions

- To reach the goals, a correct resource allocation is a condition necessary but is not enough. It is important to have in mind the stability and transparency of the procedures.
- It is also important, public–private partnership (PPP) to allow private sector to invest in public works or services.
- The private sector investments in former public infrastructure (concessions) allows public sector allocate more investment resources in social areas, such as public health, education, housing or justice.

## Investment figures

Year	GDP	FBCF	inv. Rate
1986	19171550	2377833	12.4
1987	20412276	2894119	14.2
1988	21911017	3303715	15.1
1989	24228285	4294766	17.7
1990	25142427	4402859	17.5
1991	27136661	4395041	16.2
1992	30438172	5450968	17.9
1993	32559288	6429744	19.7
1994	34416719	6827492	19.8
1995	38028587	8431935	22.2
1996	40831593	9183958	22.5
1997	43526542	10152625	23.3
1998	44944336	10342974	23.0
1999	44616344	8456724	18.9
2000	46605195	9205577	19.8
2001	48165621	9603767	19.9
2002	49209326	9752028	19.8
2003	51156415	10307001	20.1
2004	54246819	11338573	20.9
2005	57262645	14044563	24.5
2006	59748954	14455082	24.2
2007	62793469	16173869	25.8

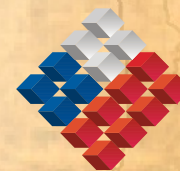
# Methodologies in Use

Cost-benefit focus	Cost-efficiency focus
Drinking water (Urban and Rural)	Infrastructure in Education
Water and Drainage (Urban and Rural)	First Aid in Health
Rural Electrification	Hospitals
Township Improvement Program	Police Surveillance
Riverbank Defenses	Infrastructure and Equipment for the Unformed Police
Public Education	Shelters for Minors
Rainwater culverts	Prisons
Fishing Villages	Sporting Infrastructure
Irrigation Projects	Replacing Equipment
Airport Infrastructure	Small Aerodromes
Inter-urban Transport	Household Solid Waste
Structuring Urban Highways	
Intermediate Highways (Urban)	



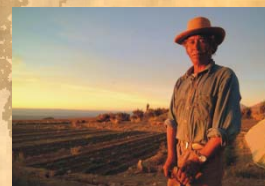
THE END.....

THANK YOU ALL



GOBIERNO DE CHILE  
MINISTERIO DE PLANIFICACION  
integra y protege

# National Investment System



# What is the National Investment System?

- It is a technical-institutional framework within which public investment is made in this country.
- It is a system that generates, assesses and rates the quality of a portfolio of investment initiatives depending on what economic and social needs there are and in accordance with public policies in force at the time.
- It is administered by MIDEPLAN and the Treasury.

# The National Investments System (NIS)

## AIM

To efficiently assign public resources to investment initiatives

## The NIS is underpinned by:

- The Financial and Constitutional Act of the State.
- The regulations creating the Ministry of Planning, Article 4 of Act N° 18,989.
- The Nation's Budget Act.
- The Constitutional Act for Regional Governments and Administration
- The Public Concessions Act



# DECISION MAKING LEVELS FOR INVESTMENT INITIATIVES

- **Strategic:** defines public policies
- **Programmatic:** plans investments
- **Operative:** develops investments (from project to project)

Efficiency requires the right coordination between these levels.



## THOSE INVOLVED IN PUBLIC INVESTMENT

- **Formulators:** with the investment policy and its planning as the framework, they study, develop and submit investment initiatives to the NIS
- **Financial Institutions :** they give priority to portfolios using a series of initiatives recommended. (Ministries and Regional Council - GORES)
- **DIPRES:** they regulate and supervise expenses and they hand over the resources for the investment initiatives recommended.
- **Assessors:** are the ones responsible for technical and economic analysis of investment initiatives applied for by the formulators as well their as ex-post evaluation. (MIDEPLAN)



## The NIS consists of four Sub-systems:

Sub-systems	Responsible for Administration
Technical and Economic Assessment	Investment Division of MIDEPLAN
Budgetary Proposal	Budget Board Treasury
Budgetary Execution	Budget Board Treasury
Ex-Post Assessment	Investment Division of MIDEPLAN

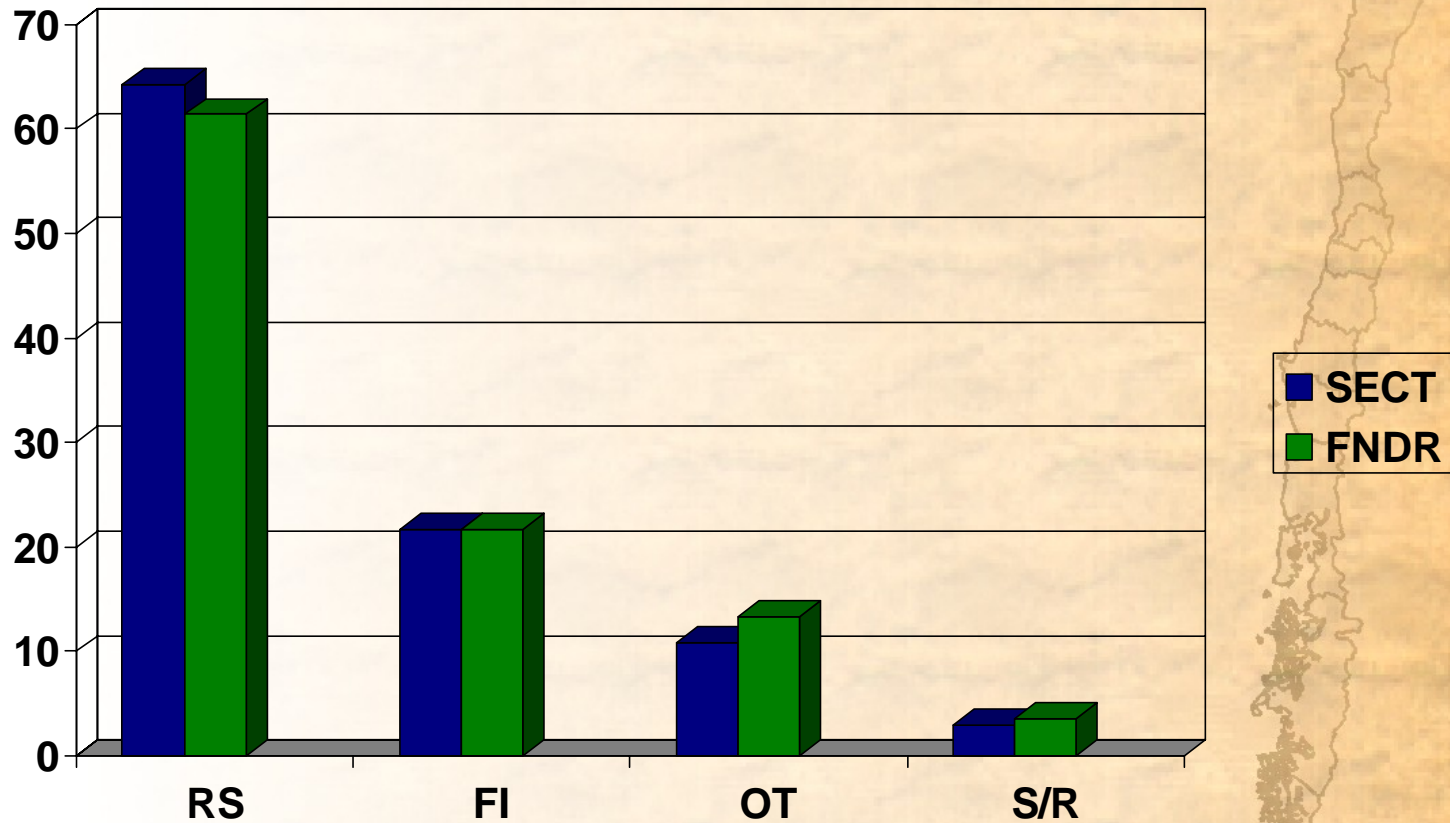


# Total Number of Initiatives Assessed

(2007 Budgetary Process)

## FNDR-Sectorial

(%)



RS: Recommended without conditions

FI: Information missing

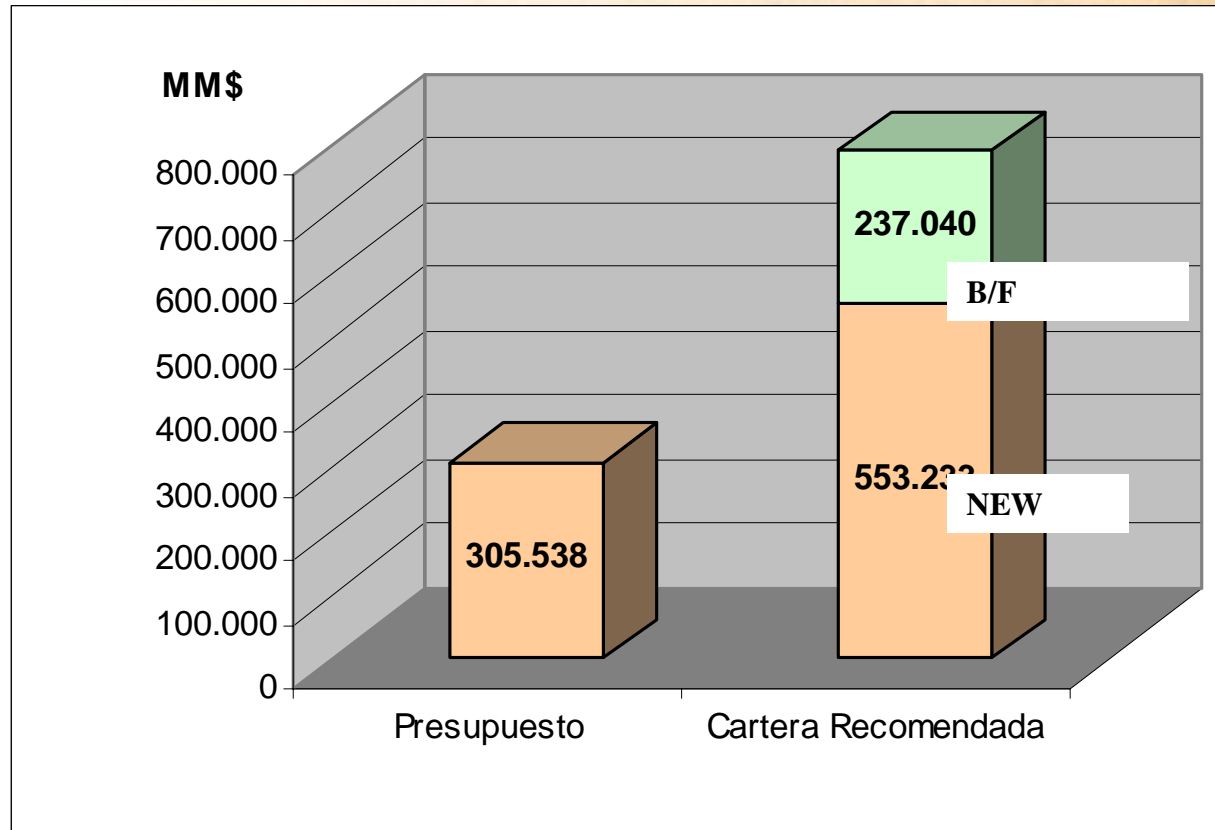
OT: Rejected for other reasons

S/R: Not recommended at this point in time



## Portfolio Recommended (RS) / Budget Available

(FNDR 2007)






# Behavior of the NIS (2003-2006)

	2003	2004	2005	2006
% of new initiatives analyzed as RS for each budgetary process.	47%	51%	55%	55%
Amount of investment as RS / Total amount for new investment according to Sub-title 31 available in the Budgetary Act each year.	1.77	1.60	2.26	2.09
% of the public investment assessed by the NIS compared to the total amount of public investment to be assessed.	68.1%	67.7%	65.1%	60.4%

Source: Investments Division . Investments Division. DIPRES Assessment Study.



## **Initiatives that are a part of the investments being analyzed currently by MIDEPLAN in the NIS**

- Sub-title 31: Basic Studies, Investment Projects and Programs
- Sub-title 33: Transferring capital to the private sector : Full School Day.
- Public Investment Companies.
- Technical Report of Private Concession Initiatives.

## **Initiatives no longer being analyzed by MIDEPLAN**

- Own studies of the institution's business (since June 2007).
- Current transfers (since 2006).
- Acquisitions of non-financial assets (land, buildings, vehicles, furniture and equipment, IT software and hardware and others). (Sectorial since June 2007, FNDR as from 2008).
- Maintenance and conservation of public infrastructure (Sectorial since June 2007, FNDR as from January 1 2008).
- Transfers of capital.
- Emergencies.



## Requirements for approving an investment initiative:

- Proper formulation : diagnosing and identifying the problem, formulating alternatives.
- Assessment: depending on the indicators defined in the methodology.
- Technical and legal regulatory compliance by each sector.
- Sustainability: financing the operation.
- Other requirements: Coherence with national, sectorial and territorial public policies, citizen participation, gender analysis and environmental impacts.

## Ongoing Improvement of the Technical and Economic Analysis

- Improving and updating methodologies
- Training professionals in the public sector
- Supervising the analysis
- Ex – post assessment

# Methodologies in Force

Cost-benefit focus	Cost-efficiency focus
Drinking water (Urban and Rural)	Infrastructure in Education
Water and Drainage (Urban and Rural)	First Aid in Health
Rural Electrification	Hospitals
Township Improvement Program	Police Surveillance
Riverbank Defenses	Infrastructure and Equipment for the Unformed Police
Public Education	Shelters for Minors
Rainwater culverts	Prisons
Fishing Villages	Sporting Infrastructure
Irrigation Projects	Replacing Equipment
Airport Infrastructure	Small Aerodromes
Inter-urban Transport	Household Solid Waste
Structuring Urban Highways	
Intermediate Highways (Urban)	

# UPDATING METHODOLOGIES

## BASIC SERVICES :

1. Rural Drinking Water
2. Sewage
1. Electrification
2. Connectivity
3. Paving Impoverished Municipalities

## DIAGNOSIS:

- Basic services : applying a cost-benefit focus
- A deficit of basic services is found in dispersed rural areas :
  - High investment cost
  - Non-traditional solutions
- Remaining projects do not reach minimum yields