

PROJECT INFORMATION DOCUMENT (PID) APPRAISAL STAGE

Report No.: PIDA27546

Project Name	CL Integrated Water Resources Management & Infrastructure Development (P152319)
Region	LATIN AMERICA AND CARIBBEAN
Country	Chile
Sector(s)	General water, sanitation and flood protection sector (70%), Public administration- Transportation (20%), Public administration- Water, sanitation and flood protection (10%)
Theme(s)	Water resource management (65%), Other public sector governance (15%), Administrative and civil service reform (10%), Infrastructure services for private sector development (10%)
Lending Instrument	Investment Project Financing
Project ID	P152319
Borrower(s)	Ministry of Finance
Implementing Agency	Ministry of Public Works
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	24-Jul-2015
Date PID Approved/Disclosed	29-Jul-2015
Estimated Date of Appraisal Completion	24-Jul-2015
Estimated Date of Board Approval	22-Oct-2015
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

1. Chile has a solid record of economic growth, with an average pace of 5 percent during the last two decades. In 2010, Chile was the second country in Latin America and the Caribbean (LAC) to join the Organization for Economic Co-operation and Development (OECD) as a member. Yet its per capita income, amounting to US\$21,888 in 2013, is still well below the OECD average of US\$37,879. As one of the best performing economies in LAC, Chile has also achieved a reduction in poverty levels and an increase in shared prosperity. For example, in 2006, 29.1 percent of the population was considered poor, living on less than US\$7 per day. Since then the poverty rate has steadily declined, reaching 14.4 percent in 2013. In terms of shared prosperity, the average income of the bottom 40 percent increased during the period of 2003-2011 by 4.28 percent, considerably faster than overall income growth of 2.46 percent. Nonetheless, reducing income inequality remains a key challenge in Chile. At 0.52, the Gini index remains high and above the average in

LAC of 0.49 and one in four Chileans report that they cannot afford to buy sufficient food.

2. Raising the per capita incomes to OECD levels and further reducing poverty and inequality levels have been common development goals of the former and current administration. An ambitious agenda to achieve these goals was set out in the Annual Presidential Speeches of 2014 and 2015. In line with these, the Ministry of the Public Works (MOP) launched the “Agenda 30 30” in 2014, calling for a more balanced development of the country. The agenda aims for a per capita income of US\$30,000 by 2030, and levels of social inclusion and territorial equity similar to those of countries such as Italy, Slovenia or New Zealand. Reaching these goals will require boosting economic growth and increasing opportunities for all through public sector reforms, job creation and increased investment, particularly in infrastructure. It will also require strengthening social policies that target the poor, and a better management of increasingly scarce water resources.

Sectoral and institutional Context

3. MOP plays a key role in reaching the Government’s development goals. Between 2003 and 2013, MOP’s infrastructure investment, including the concession investment it leveraged, amounted to US\$2.4 billion per year, equivalent to about 1 percent of GDP. It is responsible for the management of water resources—the backbone of public well-being, environmental health and economic activity, and therefore an essential element to growth and shared prosperity. MOP is also responsible for the provision of public infrastructure that underpins the competitiveness of most of the country’s major industries and provides important services to the poor.

4. In particular, MOP’s “Agenda 30 30” intends to make a significant contribution to the national development goals in the areas of infrastructure and water. A key target is to increase public, private and public-private annual investments on infrastructure from 2.5 percent to 3.5 percent of GDP. MOP’s contribution for this would equal 1.9 percent of GDP, almost double its current investment level. This will require a series of short- to medium measures for boosting investments and reforming the related legal and institutional frameworks, especially in the areas of water resources management and infrastructure concessions. The legal reforms are expected to comprise changes in both institutional arrangements and regulatory instruments. In consequence, amendments to improve water resources management (Water Code of 1981) and concessions (Concession Law of 2010) are under preparation. Additionally, changes in both areas will further require amendments to the Organic Law of MOP of 1997. The reform directions are further outlined below.

5. Water Resources Management. To reach its national development goals, there is need to respond and adapt to the growing pressures on water resources. A key challenge is to better manage water as a public good, reconciling economic efficiency with the protection of public values. The Water Code of 1981 provides for secure and tradable property rights for water use. This has encouraged over time water-related investments and improved efficiency in water use. However, the legal arrangements limit the State’s (or Government?) role and power to manage the resource, particularly regarding the exercise of water use rights. Protection of the public interest is increasingly inadequate. It is therefore recommended to manage water in a more integrated way, reforming the institutional and legal framework for water resources, creating a water authority that is more powerful than MOP’s Directorate-General for Water (DGA), expanding the State functions and tools for water resources management, and increasing investments in hydraulic infrastructure and the provision of water information, as discussed in a number of documents, including in MOP’s

“Agenda 30 30”, the National Water Resources Strategy for 2012-2015, the National Water Resources Policy of 2015 as well as analytical work carried out by the World Bank.

6. Infrastructure Planning and Concessions. Since joining OECD, the Government has increase efforts to reduce gaps in terms of infrastructure-related quantity and quality as well as to address severe social and territorial inequalities. Thus, the Government’s efforts aimed to accelerate infrastructure investments and improve service provision, taking into account social and territorial inequalities. In these lines, MOP’s “Agenda 30 30” envisions infrastructure-related investments totaling US\$37.1 billion during the period 2014-2021, mainly in the fields of transport, dams, and coastal development. Investments of about US\$23.8 billion are expected to be carried out directly by MOP and the remaining US\$13.3 billion through concessions. The successful implementation of this ambitious public investment and concession program would benefit from the strengthening of the MOP’s capacity and models for infrastructure planning and concessions development and management.

7. Enhancing the institutional capacity of the MOP’s Planning Directorate would be crucial in order to: (i) better integrate the infrastructure developed by various Ministries, as well as those developed through the public procurement and concessions, including unsolicited proposals; (ii) prioritize infrastructure investments balancing the need to increase economic growth and improve territorial equality; (iii) increase the level of societal and consumer voice in planning; (iv) generate investment programs which are better integrated along supply chains, reducing coordination difficulties and inefficiencies; and (v) better integrate infrastructure planning with the process of decentralization and land use planning.

8. Enhancing the institutional capacity of the MOP’s CCOP would be crucial in order to: (i) provide the appropriate checks and balances between the Concession Unit, MOP and other stakeholders; (ii) improve the quality and relevance of the concession portfolio, by developing a strategic concession program that would establish the basis for project selection, and by setting-up a monitoring and evaluation system that would draw lessons for future programs and projects; (iii) mitigate renegotiation risks, reduce costs, and improve confidence of the market and operators by improving the procedures for the overall concession program cycle so that all projects follow similar criteria, practices, standard procedures and benchmark to control quality; (iv) improve staff capacity and institutional memory, attracting and retaining talent, by improving human resources policies and implementing a solid capacity building program; and (v) develop an information system to improve decision making and increase transparency and credibility towards external stakeholders.

II. Proposed Development Objectives

The Project Development Objective (PDO) is to strengthen the capacity of the Borrower for water resources management and public infrastructure planning and concession.

III. Project Description

Component Name

Component 1: Water Resources Management.

Comments (optional)

9. The component aims at strengthening the Ministry of Public Works’ capacity for better integrated and participatory basin-scale water resources management. It includes 4 sub-components: (a) the modernization of the institutional framework for water resources management; (b) the

strengthening of the national water information system; (c) the improvements of the instruments for water resources management and (d) the implementation of those instruments in two selected river basins: Choapa and Maule.

Component Name

Component 2: Infrastructure Services Planning.

Comments (optional)

10. The component aims at improving the Planning Directorate's infrastructure planning tools and capacities, to enhance economic growth and achieve a more equal infrastructure development throughout the country; while allowing for an increased participation of other ministries, the private sector and the regional governments. It includes three sub-components: (a) support for the updating of the national infrastructure master plan; (b) development of territorial inequality indices and (c) strengthening the Planning Directorate's capacity for infrastructure planning and knowledge management.

Component Name

Component 3: Institutional Strengthening for Infrastructure Concession.

Comments (optional)

11. The component aims at strengthening the institutional capacity for infrastructure concession within MOP. It includes three sub-components: (a) strengthening the regulatory framework and strategic management; (b) improvement of CCOP's operational model; and (c) capacity building and information system.

Component Name

Component 4: Project Implementation.

Comments (optional)

12. The component will finance overall Project coordination, monitoring and evaluation.

IV. Financing (in USD Million)

Total Project Cost:	45.07	Total Bank Financing:	40.79
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			4.28
International Bank for Reconstruction and Development			40.79
Total			45.07

V. Implementation

A. Institutional and Implementation Arrangements

13. The implementing agency will be MOP. Within MOP, the Sub-secretariat of Public Works will be responsible for overall Project coordination, monitoring and evaluation as well as fiduciary aspects. DGA, Planning Directorate, and CCOP will be responsible for the technical implementation of components 1, 2 and 3, respectively. This will include the preparation of related implementation and procurement plans; terms of reference and specifications of services and goods to be contracted; participation in the evaluation committee and supervision/reception of the services and goods; and the monitoring and evaluation of the respective components, as well as the

application of the relevant social and environmental safeguards.

B. Results Monitoring and Evaluation (M&E)

14. The Sub-secretariat of Public Works will have overall responsibility for Project monitoring and evaluation (M&E). DGA, Planning Directorate and CCOP will be responsible for the monitoring of their respective components, passing on the information to the Sub-secretariat of Public Works for integration and further processing. Under Component 4, an amount of US\$200,000 is earmarked for M&E.

C. Sustainability

15. The commitment of MOP in supporting Project activities during and after implementation, is a critical factor to ensure the sustainability of Project's outcomes. The Project would ensure MOP's engagement in order to reduce the negative effects of changes in Government and/or MOP staff turn-overs.

16. A higher number of qualified staff at both national and regional levels in addition to an increased number of logistical teams and means in the field, would improve DGA's capacity for water resources management and sustainability of Project results. This will positively impact the National Water Information System, water resources planning, control and enforcement and dam safety, as well as the replication of the approaches piloted in the Choapa and Maule basins in other regions of the country. The Project supports the rationale for hiring of additional staff, assessing the needs for additional staff and/or vehicles as part of the preparation process and will strive to rely as little as possible on consultants.

17. The project will support the development of a communication strategy and finance a capacity building program for CCOP staff to increase sustainability of CCOP's strengthened capacity in the area of infrastructure concession. In addition, the Project will involve stakeholders in the definition of the new requirements of the concession project cycle.

18. Changes in the institutional and legal framework to enable the creation of a Sub-Secretariat for Water Resources and a Directorate for Concessions in MOP, would improve the Government's available tools to manage water resources and infrastructure concessions. Furthermore, these would substantially increase the likelihood of sustainable Project outcomes and the scaling up of the approaches piloted in the two basins. As envisioned, the new institutions would have more budget and staff and would be equipped with better tools and more power to fulfill their mandates.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10	x	

Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)**VII. Contact point****World Bank**

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