I. Introduction and Context

Country Context

Chile is an upper middle income country which recently acceded to full membership in the OECD. It has one of the most politically stable systems in Latin America, strong institutions and a solid record of economic growth during the last two decades. As a result, Chile has been among the most successful countries in reducing poverty levels worldwide (from 40% in 1990 to 13.7% in 2006).

Chile faces two key challenges going forward: declining growth performance and high inequality. Chile's growth has slowed down from an average of 7.6% during the period of 1986-1997 to 3.5% in the period of 2000-2009. Productivity growth has been trending downward through much of the last decade and overall investment levels have also declined since the late 1990s. The second challenge relates to the need to tackle inequality. While Chile has made substantial progress in reducing poverty (15.1% in 2009), the average income of the richest 20% of Chileans was 12 times that of the poorest 20% in 2009. In addition, these challenges have a clear spatial dimension: performance varies markedly among Chilean regions (see Table 1 below). Poverty indicators are significantly higher in some regions when compared to the national average of 15.1% in 2009. Regions with high poverty levels also present rural population higher than the national average (13%); for example Araucania has a poverty level of 27.1% and rural population of 32%.

<table>
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<th>Project Name</th>
<th>Chile Rural Infrastructure for Territorial Development (P126500)</th>
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Table 1. Rural and Poverty Level by Regions (Uploaded as additional document)

Sectoral and Institutional Context
Chile's challenging geographical, topographical and population density situation presents a number of challenges for developing and managing the national infrastructure system and providing access to transport infrastructure, communications and basic services, especially in rural areas. Under Chile's road concession program, which started in 1993, the transport infrastructure network has been substantially improved; however, the needs of some regions and rural areas have yet to be met. Connectivity with peripheral areas and remote regions need to be improved, but care must be taken not to focus solely on inter-city linkages: connections between urban centers and rural areas are crucial for greater development of rural regions. Water supply and sanitation is characterized by high level of access and good quality. But differences are important when looking at rural population. While urban access to water supply stood at 99.8% and access to sanitation at 95.2% in 2006, the figures are 58% and 62% for the rural population (13% of Chilean inhabitants). Interregional disparities in access to telecommunication also remains significant: while more than 30% of households in the Santiago Metropolitan Region or in the mining region of Antofagasta have Internet access, only 10% of households do so in the agricultural regions of Maule and Araucan and in the far south region of Aysen. These inequalities in access to infrastructure services broadly correspond to disparities in GDP per capita.

A more decentralized and efficient infrastructure investment planning and execution process can facilitate regional development and diminish regional disadvantages. Improved infrastructure can play an important role in easing the burden of remoteness and lack of accessibility of Chile's rural areas. However, traditional public investment processes and methodologies do not facilitate public investment in rural areas neither promote integrated interventions that correspond to regional and local priorities. Moreover, if on the contrary, a bottom-up approach is taken, it can be ensured that planning for infrastructure investments benefits from information regarding local opportunities and needs, and regional assets. In addition, coordination among the different institutions dealing with rural infrastructure in Chile as well as other regional economic and public investment policies is crucial. SUBDERE has identified the strengthening and deepening of the decentralization process as a key tool to improve the efficiency of infrastructure investments in regions and municipalities in order to foster regional and local development.

The First Rural Infrastructure Project for Territorial Development Project (PIRDT) was prepared in 2004 upon the request of the Government of Chile to provide an alternative to the traditional way of channeling public investment in rural areas to promote regional development. The First PIRDT was prepared to pilot a methodology that identifies at the local level the gap of infrastructure needed to promote the economic development of the territories under intervention. The project was piloted originally in five regions with the highest levels of poverty and rural population and highest deficit in infrastructure services (see Table 1 and Box 1).

**Box 1**

**Rural Infrastructure for Territorial Development Project (PIRDT) (2005-2011)**

Total Cost US$90.26 million (of which US$50.26 million were financed by the Bank)

The main objective of the First PIRDT was to increase the effective and productive use of sustainable infrastructure services by poor rural communities in selected territories of originally 5 regions (Coquimbo, Maule, Bio-Bio, Araucania, and Los Lagos) and 3 additional ones (O’ Higgins, Los Rios, and Aysen). The infrastructure services include water supply, sanitation, roads, bridges, and port works, Information and Communication Technology (ICT), Infrastructure, and electricity.

A basic element of the PIRDT strategy was the elaboration of comprehensive territorial development plans (Planes Marcos de Desarrollo Territorial PMDTs) through a participatory process that enables to assess a group of projects under the National Investment System. The National Investment System establishes the norms and procedures that govern Chilean public investment process. Even if national and regional sectoral coherence is considered in the technical and economic analysis of Mideplan, each project is economically assessed individually. This works against a more in depth consideration of the territorial synergies of integrated interventions in a region or territory (SNI Sistema Nacional de Inversión). As part of the development of these plans, local stakeholders assess the productive potential of their territories (e.g. agriculture, tourism, or fishery) and prioritize rural infrastructure investments. Plans must then be approved by the regional council (COREs) to ensure consistency with the territorial planning policies defined and implemented at the regional level and to empower regional governments. The PMDTs are perceived as a tool to improve the quality of regional development strategies. It is a coherent plan based on qualified analysis and a clear definition of the strategic objectives for regional development through the provision of infrastructure linked to supporting economic activities.

The resulting methodology allows an integrated economic evaluation of a group of projects that, when implemented as a package, enables economic productive activities with higher benefits than the benefits of individual projects.

This project makes empowerment of local stakeholders a basic characteristic of project planning and implementation: the decentralization of decision-making is seen as a means of boosting ownership and adapting investment to meet local needs. At the same time, it introduces a territorial approach with a focus on cohesive communities that crosses administrative boundaries.

A total of 31 PMDTs have been completed to date and 13 are programmed. Regarding the delivery of infrastructure services, a total of 114 projects have been completed to date, of which 75% are rural roads and 18% rural water systems. The project provided the only planning tool available in Chile for a comprehensive approach for infrastructure investment.

The resulting methodology (PMDT) has been officially adopted by MIDEPLAN, and requires building local capabilities in order to implement it. This approach benefits from information at the local level, allowing a more accurate identification of required investments (as opposed to investment selection at the central level). Improving the selection process of investments at the local level is one of the actions envisaged by SUBDERE in order to respond to the decentralization mandate (Revolución Decentralizadora) given to SUBDERE by President Pira. In addition, PMDTs have worked as catalyst of public investment of several public programs to develop productive activities.

The proposed project builds on the success of the model piloted under the First PIRDT, to: (i) extend the scope of the First PIRDT, (ii) strengthen the institutional framework for investment delivery, (iii) improve the quality of investment delivery through the implementation of the National Investment System, and (iv) pilot the use of new technologies or management models (e.g. road maintenance) for the provision of infrastructure services.
Relationship to CAS

This CPS aims to support the GoC vision of eradicating extreme poverty by 2014 and becoming a high-income country by 2018. The CPS focuses in three areas: (i) Public Sector Modernization; (ii) Job Creation and Equity Improvement, and (iii) Sustainable Investment Promotion. The proposed project will contribute to the third area, which is described in the current CPS as follows:

While the Government can continue to rely on the private sector for major Infrastructure investments, the public investment planning agenda is expected to focus more on rural regions with high poverty levels. Some of these regions were heavily affected by the earthquake and the tsunami in February 2010 where reconstruction continues. However, the highest obstacle to reach these rural communities is the traditional economic evaluation of individual infrastructure projects. Furthermore, the prioritization of these investments remains weak as most of the investment in infrastructure is allocated through sectoral agencies that often do not respond to local and regional priorities. There has been some progress in this regard through the territorial developing planning approach under the development of Territorial Development Planning Frameworks (PMDTs). The government has prepared 31 PMDTs to date, covering investments in roads, water and sanitation, and energy.

II. Proposed Development Objective(s)

The project development objective is to increase the effective and productive use of sustainable rural infrastructure services by poor rural communities, in order to contribute to productivity growth and sustainable rural development. Infrastructure services include transport (roads, bridges, and port works), water supply, sanitation, ICT, and electricity (with emphasis on renewable technologies).

On a broader level, the project will also support the decentralization agenda of the Borrower, as a way to increase ownership, accountability, and social inclusion responsiveness to local needs. Improving mechanisms for identifying local investments and increasing public investment efficiency are priorities of the decentralization agenda that is being undertaken by SUBDERE (Revoluci Descentralizadora#).

Key Results
Need to get from TTL

III. Preliminary Description

The Second PIRDT is envisaged to have 4 components, with a total cost estimated at US$100 million, of which US$70 million constitutes the GoC's counterpart financing. The lending instrument being proposed is a Specific Investment Loan (SIL).

Component 1: Participatory Territorial Planning. The objective of this component is to provide territories with PMDTs, allowing them to identify and assess investments under an integrated approach. However, as proved with the First PIRDT, a strong training and dissemination program is needed for the new regions to be able to implement the new methodologies. Considering the new aspects of the Second PIRDT, under this component, the project will: (i) extend the preparation of the PMDTs to the 15 regions; (ii) pilot the preparation of PMDTs by other local agents or institutions (nucleo gestor) different from the Regional Governments (GORE). These could be for example municipalities or associations of municipalities (mancomunidades). In any case, the project will ensure a more proactive role for the municipalities covered by the project; and (iii) institutionalize and formalize the processes for the preparation of the PMDTs.

Component 2: Infrastructure Service Delivery. This component will finance: (i) the infrastructure investments identified in the PMDTs, (ii) pre-investment such as feasibility and designs studies for the projects identified in the PMDTs; (iii) supervision for the execution of these projects, and (iv) studies, technical assistance or support for the establishment and strengthening of local service providers to operate and maintain the infrastructure provided. The investments will include rehabilitation of roads, bridges and port works, and construction, rehabilitation, and expansion of rural water, sanitation, electricity and ICT infrastructure. The PIRDT funds come from a provision within the Fondo Nacional de Desarrollo Regional (FNDR). However, it is important to note that the Regions have also access to additional funds from the FNDR to finance the projects identified in the PMDTs. Under this component, the Second PIRDT will continue supporting the pilot of new technologies for the provision and sustainability of the rural infrastructure services.
Component 3: Development of Productive Potential. The proposed operation will include, on a pilot basis, a component aimed at financing productive projects. This has been a request from the regions participating in the First PIRDT. In addition, and as in the previous operation, the project will seek to coordinate with other national programs on the field (such as Chile Emprende, CORFO and SERCOTEC).

Component 4: Institutional Strengthening. This component will support: (i) project coordination at the national level within SUBDERE, and at the regional level, through the Unidades de Gerenciamiento Regional (UGR); and (ii) studies and capacity building for strengthening policies and institutions in the areas of territorial planning and the provision of rural infrastructure. In this regard to enable new regions to participate in the project (to plan and invest in infrastructure with a territorial focus) this component will finance a strong training program on using the planning methodology of the PMDTs for all governmental agencies involved in project implementation (e.g. GOREs, SEREMIs, SERPLACs). This component will continue financing personnel in sectoral agencies at the regional or national level needed to ensure project implementation.

IV. Safeguard Policies that might apply

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VI. Contact point

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