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Chile: Public Works Concessions. Achievements and Stagnation

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In the mid-1990s, during the Frei administration, two critical laws for the development of public services infrastructure were approved:

- A public works concessions law
- A public ports concessions law

A third law was approved later in the decade which allowed municipal governments to build their own infrastructure by granting concessions to private companies.
• The financial logic underlying the three laws was the well known build-operate-and-transfer (BOT) system.

• This was accompanied by the privatization of all Government-owned water and sewage companies (the electricity sector had been privatized during the Pinochet dictatorship).
• The results were spectacular:
  – Divided highways under concession increased
    • from 3 in 2000 to 20 in 2005
    • from 120km in 2000 to 2100 km in 2005
    • another 400 km of urban highways were built
  – Public ports (13) under concessions increased
    • From none in 1996
    • To 9 by 2000
  – Airports (15) under concessions went
    • From none in 1996
    • To 10 by 2000

• Investment in concessions
400 thousand sq meters of public buildings (courts, jails, hospitals, and support buildings for the Santiago transportation system) were constructed.

- Total investment reached US$ 12 billion, as sizeable figure for an economy that today has a GDP of around US$ 300 billion.

- The value of the accumulated infrastructure assets is estimated at about US$ 25 billion.
• Since 2005 the concessions system has stagnated:
  – Only 3 roads were given in concession since 2005, adding only 500 km to the network
  – Recent calls for bids on new road concessions have not had bidders (highway G-21)
  – Calls for bids on a major port (Iquique) also had no bidders
• In addition, government efforts to expand the system to the construction and operation of public building, prisons, and hospitals encountered stiff opposition and were withdrawn.
Finally, the system itself is being called into question by the potential users.

Those who oppose the system argue that:
- If the roads have been built, why continue paying tolls?
- Tolls are too high and generate excess returns for investors
- Tolls are socially unfair (regressive)
- Congestion is an increasing problem
- Congestion charges are not a socially acceptable solution.
To make concessions more attractive to bidders, and therefore lower the operational charges, the CPI has proposed a new self financing Infrastructure Fund.

The central idea is to use the accumulated assets, of around US$ 20 billion, plus possible payments made by prospective concessionaires, to finance part of the start-up costs, to (partially) guarantee construction debts, and to assume contingent liabilities (e.g.: traffic guarantees, exchange rate guarantees, etc.).
• However, it has proven difficult to communicate to the population at large the benefits of continuing and expanding the concessions system while:
  – tolls increase annually in real terms,
  – at the same time quality of service is deteriorating, through congestion,
  – Fear that concessions will lead to privatization of other basic public services, such as health care.

• At the same time, our Ministry of Finance is not attracted to the idea for fear that it may become a big fiscal fund outside of their sphere of control.
• Further discussion and elaboration may allow the Infrastructure Fund to become a road for future investment in infrastructure in Chile.

• The discussion is very important because the deficit in this area has been estimated at about US$ 50 billion.

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