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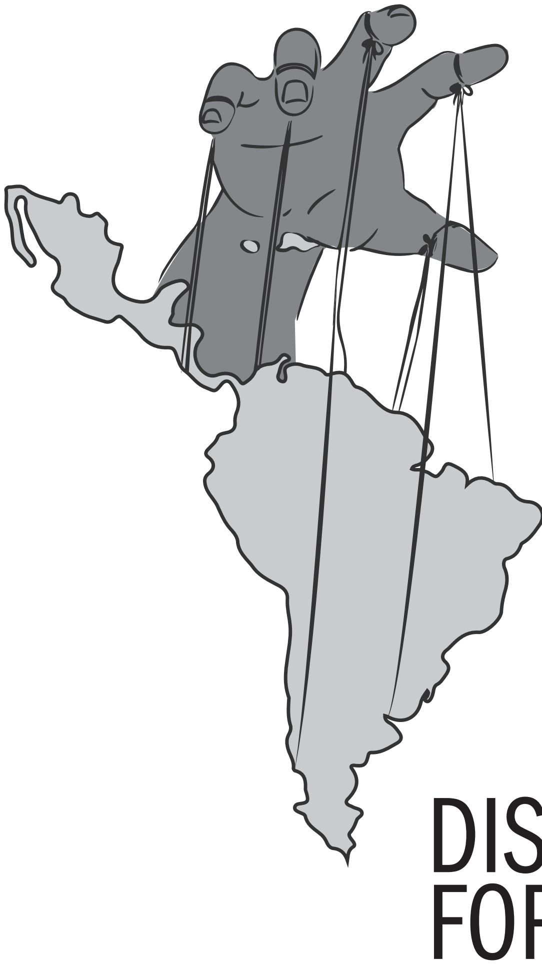

DISRUPTIVE FORCES

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The Sustainable Projects Management Office

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Juan José Obach is the Head of the Sustainable Projects Management Office (GPS) for the Government of Chile. This newly created office, under the Ministry of Economy, Development, and Tourism, seeks to boost investment in the country by coordinating the permitting process of large investment projects, reducing permitting times and cutting red tape. He has worked as a researcher at the Center for International Development at Harvard University on topics related to productivity and economic growth, and also as a consultant at the OECD. Between 2010 and 2014 he worked in the Chilean Ministry of Social Development and in the Ministry of Labor and Social Welfare. He was also a columnist for the digital platform of La Tercera newspaper. Juan holds a Bachelor of Science in Business Administration and a Master of Science in Management from Universidad Católica de Chile. He also holds a Master in Public Administration and International Development (MPA/ID) from Harvard University.

Large investment projects are a source of economic and social development for countries. They increase the national income, are a source of employment, stimulate the local economies where they are located, and generate tax revenues for government. However, investment projects can also generate negative impacts on the environment, in the local communities, or in patrimonial or cultural assets. Therefore, modern states have a double challenge: they need to promote investment projects through efficient and streamlined processes, along with setting high environmental standards and providing dialogue mechanisms for affected communities.

Some countries have already highlighted the importance of large investment projects for development by creating government offices dedicated exclusively to the coordination of projects. In some cases, these offices serve as a one-stop shop (single window) for certain types of permits and authorizations. In others, they have a coordination mandate with other public agencies, in order to streamline the permitting process, reduce government response times, and provide guidance to project proponents.

In Chile, investment projects have been a key driver to sustain long-term economic growth. Since 1960, the investment rate has averaged 4.9 percent per annum in real terms, and in the last 30 years, 7.8 percent. Despite these high rates, which reflect a dynamic economy in terms of investment, Chile did not have a public agency dedicated to the task of coordinating large investment projects until 2018. In a country where large mining, energy, or infrastructure projects take, on average, 4.5 years to get all their permits and authorizations,[1] such a public office is enormously beneficial for the country's investment climate, ultimately lowering bureaucracy costs for project proponents along with modernizing the state capacity related to the approval of these types of projects.

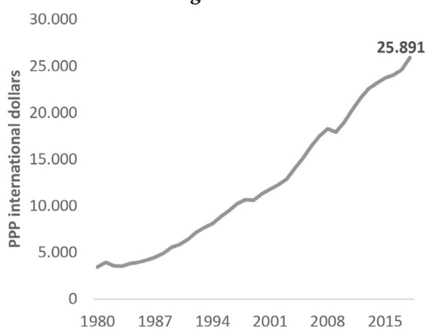
In May 2018, the Ministry of Economy, Development and Tourism of Chile launched the Sustainable Projects Management Office (GPS Office, using its acronym in Spanish). The goal of this public agency is to coordinate the country's major investment projects, to reduce permitting times, to design public policies to foster investment in the country, and to enhance the capabilities of the public agencies related to the approval of investment projects.

This article highlights the advantage governments have in creating an agency focused on the coordination of investment projects and, in particular, focuses on the creation of the GPS Office in Chile. First, we illustrate the importance of investment in Chile's successful story of economic development. Second, we detail the permitting process of large investment projects in the country and the need for an articulated action from the government to approve or reject them. Finally, we elaborate on the creation of the GPS Office and how it aims to provide the Chilean state with an efficient institutional framework to support investment projects across the country.

THE IMPORTANCE OF INVESTMENT IN ECONOMIC GROWTH: THE CHILEAN CASE

Between 1980 and 2017, the per capita GDP of Chile went from $3,430 to $24,537 (Figure 1). That is, the income of the Chilean population in this period grew by a factor of seven. In the same period, the country managed to reduce poverty from 40 percent of the population in 1987 down to 8.6 percent in 2017.[2]

Figure 1



Source: World Economic Outlook, IMF (October 2018)[3]

A key driver that has sustained the economic development of Chile is investment. According to data from the Chilean Central Bank, from 1960 to 2017, investment has grown at an average annual rate of 4.9 percent in real terms. By 2017, investment represented 22.1 percent of the gross domestic product of the country. The development of investment, and in particular of large investment projects, is instrumental in improving the wellbeing of people for several reasons. First, investment projects are a source of employment. A new mining site, an electric generation plant, a modern food processing plant, or the construction of infrastructure works such as ports, bridges, subways, or highways demand high-skilled labor, with competitive salaries and access to social security (health coverage and pension benefits).

Second, investment projects demand several services that foster local economic development. For example, mining sites demand transportation services for its workers from/to the nearest city, gastronomic services for workers, and hotel services for the executives who visit the mine. According to Cochilco, a Chilean public think-tank related to the mining industry, each direct job in mining generates three indirect jobs.[4]

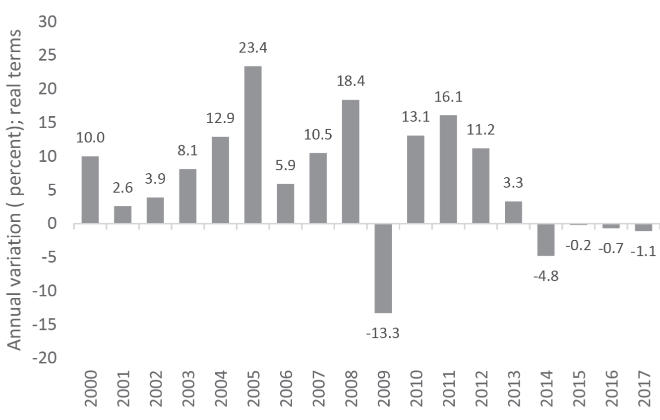
Third, investment projects facilitate the adoption of new technologies, which are not only more efficient from an operational standpoint but are generally more environmentally friendly.

Although Chile has a strong long-term economic growth trajectory, in the 2014-2017 period the economy lost some of its dynamism. GDP growth slowed to an average annual rate of 1.7 percent and investment became a drag rather than an engine of growth, averaging -2.1 percent per annum (Figure 2). One of Chile's investment barriers is a long and burdensome permitting process for investment projects. This extended time generates a series of frictions and burdens for both project proponents and public agencies. According to the National Productivity Commission, in Chile large investment projects take more than four years to get all their authorizations, and in some cases, they have to process more than 2,000 permits in more than 35 public agencies. This poses a double challenge for the government: how to balance an efficient and streamlined permitting process for investment projects with the compliance of high environmental standards and the generation of effective mechanisms to compensate affected communities.

THE PERMITTING PROCESS FOR INVESTMENT PROJECTS IN CHILE

In Chile, any investment project must obtain a series of permits and approvals that are granted by different public services, either at the central or regional level. In general, all the environmental permits are carried out through a one-stop shop or single window managed by the Environmental Impact Assessment System (SEIA); this process culminates with the grant of the Environmental Qualification Resolution (RCA), a permit that encompasses any permit with an environmental component. However, after the environmental permit is granted, investment projects require a series of sectoral permits, depending on the type of project. Finally, any project

Figure 2



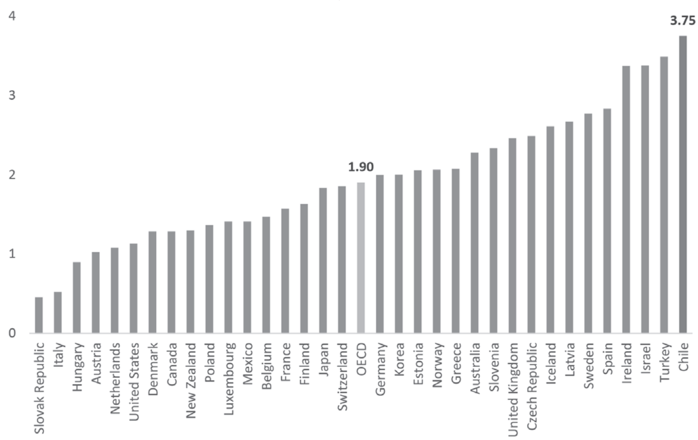
Source: Central Bank of Chile

Figure 3

Sector	Sub-sector	Required Permits	Involved Entities
Mining	Exploration	59	35
	Exploitation	212	16
Energy	Hydroelectric	162	27
	ENRC	175	27
	Transmission	153	27
Real Estate	Housing	133	25
Infrastructure	Road	149	26
	Hospital	180	29
	Subway	117	30
Industry	Agroindustrial Plant	127	23
	Chemical Plant	157	20
	Aquaculture Plant	139	24
	Cellulose Plant	168	30
	Water Treatment Plant	145	24
	Desalination Plant	131	24

Source: National Productivity Commission

Figure 4



Source: OECD, Product Market Regulation

must obtain construction and building permits in the respective city hall. Figure 3 illustrates 15 types of projects and the corresponding number of permits they need to obtain to operate.

The diagnosis of the quality, efficiency, and effectiveness of the Chilean government permitting process for investment projects is not encouraging. According to the Organisation for Economic Cooperation and Development (OECD), Chile has the most complex regulatory procedures of this group of countries (Figure 4), and government bureaucracy is perceived by Chilean companies as the second-most-pressing factor to do business in the country.[5]

This diagnostic reveals not only a high burden for project proponents in Chile, but also the weak institutional capabilities of government agencies. As mentioned above, the lengthy project approval timelines and the large amount of permit requirements hinder the private sector's tenacity to deliver new projects. Moreover, a large number of permits do not translate into higher environmental and social standards. According to the National Productivity Commission, developed countries are able to meet higher standards with roughly half of the permits required by the Chilean state.[6]

In addition, the permitting process is highly fragmented and unarticulated. From experience, public agencies hardly coordinate with each other and respond exclusively to the particular mission for which they were created, so the system as a whole lacks a project perspective. This fragmentation generates disparities in evaluation criteria between and within agencies (regional versus central level), which ultimately generates uncertainty and further delays the permitting process. Therefore, a fragmented institutional framework makes it difficult for public officials to feel part of an investment ecosystem and to act in a coordinated manner.

THE SUSTAINABLE PROJECTS MANAGEMENT OFFICE

Countries that have successfully combined long-term economic growth with care for the environment and awareness for community rights have typically created governmental offices that coordinate and assist investment projects through the permit and authorization process. Canada created the Major Projects Management Office in 2007, a public entity under the Ministry of Natural Resources.[7] This office was able to halve the total approval time (from four to two years) while also providing participation and dialogue mechanisms with indigenous communities. Another example is the Major Projects Facilitation Agency in Australia, which assists major projects (above $20 million) at all development stages.[8]

Under the administration of the current president, Mr. Sebastián Piñera, the Ministry of Economy launched in May 2018 the Sustainable Projects Management Office (GPS Office, using its acronym in Spanish), with the main goal of coordinating major projects, reducing processing times, and providing greater legal certainty to both project proponents and public agencies involved in granting permits.[9]

At a national level, there is bipartisan consensus in the creation of such a government office. The creation of the GPS Office was not only part of the program of Mr. Piñera, but it was also part of two other presidential candidates' programs.[10] Likewise, the creation of a public office for project management has been proposed by independent bodies such as the National Productivity Commission and well-renowned national think tanks such as Valor Minero.

One of the main challenges of a project coordination office is to align the incentives that the different government agencies have, and make them collaborate towards the unique objective of having an efficient, disciplined, and modern state to approve investment projects. For this reason, the institutional framework of the GPS Office comprises a committee composed of ten Undersecretaries of State. This committee serves as a formal institution to provide information to each undersecretary about the performance of the public agencies under their mandate regarding investment projects' approval.[11]

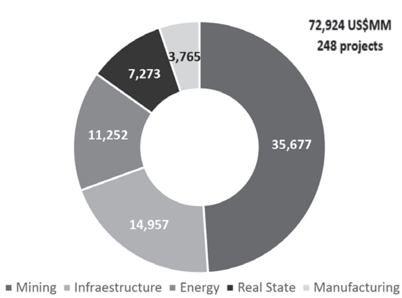
The GPS Office has the following three main objectives:

1. TO ACCOMPANY PROJECT PROPONENTS: act as an entrance door to the permitting process for project proponents and provide continuous support and feedback during the permitting process.
2. TRACKING AND MONITORING OF PROJECTS: constant coordination with more than ten public agencies about the progress of a portfolio of more than 240 investment projects (as of December 2018) that are in some stage of the permitting process.
3. POLICY PROPOSALS: design and implement policies to increase the state's efficiency in terms of the permitting process of investment projects, with special emphasis on the upgrading and digital transformation process of public agencies.

The GPS Office intends to first introduce investment projects to all governmental offices that are entitled to issue permits or approvals to investment projects, in order to anticipate potential complexities and bottlenecks that they will face during the permitting process. Secondly, the office offers a continuous accompaniment to project proponents during the permitting process through a team of executives. Consequently, these executives interrelate directly with the public officers that evaluate the projects at different stages. To overhaul the entire permitting process not only allows for the state to have a complete tracking and monitoring of the lifecycle of investment projects, but it also reduces the project proponents' costs to coordinate with the state and helps identify bottlenecks and inefficiencies throughout the whole permitting process.

In order to convert all the information gathered by an investment project coordination office into an effective management tool, it is essential that those who make decisions within the state have permanent and easy access to that information. By December 2018, the office had identified 248 large-scale investment projects, with a total investment amount of $72.93 million for the 2019-2023 period (Figure 5). All of this information is public, and the progress of each one of these projects is regularly updated for decision makers within the state.[12]

Figure 5



Source: GPS Office, Ministry of Economy, Development, and Tourism

Finally, the GPS Office also designs and implements policies to enhance the efficiency of the state in terms of investment projects' approval. During the year 2018, the GPS office put in place the following initiatives: a pro-investment bill entered into Congress in May 2018, a mandate to the National Productivity Commission to study the regulatory burden of the permitting process, the implementation of a unique digital platform to submit permits, and an institutional alignment program to help public agencies to enhance their management capacities. The main driver for success in this area is the joint work with the corresponding public agency and the alignment of both parties towards a unique objective. Therefore, the process of modernization must be appropriated and led by the corresponding agency, rather than a mandate from the GPS Office.

In conclusion, large investment projects are a source of economic growth and prosperity for countries. They bring along employment and new technologies, and boost the local economies where they are located. However, given their complexity in technical, environmental, and social aspects, modern states should aim to have an efficient, simple, and streamlined process to approve investment projects. Coordination offices or one-stop shop agencies can serve as a means to achieve this goal. In 2018, the Chilean Ministry of Economy moved in this direction, by launching the Sustainable Projects Management Office. The main goal of this new public institution is to coordinate all the public agencies involved in granting permits and projects proponents, in order to reduce permitting times, streamline processes, and give more legal certainty to project proponents. Productive development policies of this type should be seriously considered by developing (and developed) countries that want to sustain long-term economic growth through high investment rates, but suffer from an excessive bureaucracy and an unarticulated state when it comes to large investment projects' approval.

NOTES

[1]Sustainable Projects Management Office estimations, based on the current portfolio of investment projects.

[2]World Bank Group, "Poverty Headcount Ratio at National Poverty Lines (% of Population)," n.d., https://data.worldbank.org/indicator/SI.POV.NAHC?locations=CL.

[3]International Monetary Fund, *World Economic Outlook: Challenges to Steady Growth* (Washington, DC: IMF, 2018).

[4]Cochilco, *Minería en Chile: Impacto en Regiones y Desafíos para su Desarrollo*, 2013, https://www.cochilco.cl/libros/libro_mineria_en_chile_impacto_en_regiones_y_desafios_para_su_desarrollo.pdf.

[5]World Economic Forum, *The Global Competitiveness Report 2017-2018* (Geneva: World Economic Forum, 2017).

[6]National Productivity Commission, "Regulatory Assessment in Strategic Sectors" (preliminary draft), 22 May 2018, http://www.comisiondeproductividad.cl/2018/05/revision-regulatoria-de-sectores-estrategicos/.

[7]Government of Canada, Major Projects Management Office, homepage, n.d., https://mpmo.gc.ca/home.

[8]Government of Australia, Major Projects Facilitation Agency, homepage, updated 30 October 2018, https://www.business.gov.au/advisory-services/major-projects-facilitation-agency.

[9]Government of Chile, "Crea comite asesor de proyectos sustentables, y deroga decreto no. 202, de 2015, del Ministerio de Economia, Fomento y Turismo," *Diario Oficial de la Republica de Chile* no. 42.099, 14 May 2018, http://www.diariooficial.interior.gob.cl/publicaciones/2018/07/05/42099/01/1424710.pdf.

[10]Ricardo Lagos, "Piensa en Chile," March 2017, http://www.ppdchile.cl/wp-content/uploads/2017/05/Piensa-Chile-PPD-RL.pdf; Alejandro Guiller, "Programa de gobierno Alejandro Guillier Alvarez: Nuestras ideas para Chile," n.d., https://www.servel.cl/wp-content/uploads/2017/09/Programa_Alejandro_Guillier_Alvarez.pdf.

[11]The Committee is composed of the following ministries: Economy, National Assets, Energy, Mining, Public Health, Culture, Agriculture, Environment, Defense and Armed Forces, and Public Works.

[12]See Ministerio de Economía, Formento y Turismo, Oficina de Gestión de Proyectos Sustentables, "Catastro de proyectos de inversión," n.d., https://www.economia.gob.cl/oficina-de-gestion-de-proyectos-sustentables.