

## Chapter 9

# Regional development policies: Co-ordination across levels of government

### Main recommendations

- *Place-based policies should be promoted: the potential for regional growth will depend largely on how public policies adapt to the specific and varied characteristics and opportunities of the different Chilean regions.*
- *Improving access to infrastructure, basic services and telecommunications in rural areas and peripheral regions represents a potential source of growth that would increase the country's overall growth performance.*
- *To improve the prospects of rural areas, there is a need to shift from sectoral agricultural policies towards comprehensive rural development programmes.*
- *Chilean regions would benefit particularly from policies aimed at boosting productivity, such as those targeted at innovation and entrepreneurship, and at improving education and training.*
- *The technological upgrading of traditional industries for innovation-led growth can be a spur for regions like Valparaíso or Bio-Bio, and for the northern regions in which manufacturing is underdeveloped.*
- *Bottom-up diagnoses of regional productive advantages can help to find untapped regional resources for diversifying the economy. This would also make it possible to take account of territorial spillovers among sectors and regional dynamics.*
- *It will be important to give extended competences to regional governments to allow them to be active in the discussion, planning and co-ordination of regional development policies.*
- *The potential of the Programming Agreements (taking advantage of the recently approved Constitutional Reform on Regional Government and Administration) could be further developed. This multi-level contractual arrangement could help in the co-ordination of regional and sectoral priorities.*
- *Other mechanisms, such as capacity building, performance management systems and strengthened participation schemes, should be promoted in order to strengthen regional and local capacities and performance. Finally, there is a need to strengthen the governance structure of metropolitan areas to improve the delivery of key public services and promote an integrated urban system.*

## Regional development in Chile: trends and challenges

### Underutilised regional potential

At the national level, Chile's macroeconomic performance has been strong over the last two decades, but performance varies markedly among Chilean regions. Chile's regional disparities in gross domestic product (GDP) per capita are substantially larger than in most OECD countries (see OECD, 2009a). Such disparities are closely associated with labour productivity; lagging regions have lower productivity levels, lower tertiary enrolment rates and lower household income than the national average. The catching-up process is not occurring uniformly, causing imbalances and polarisation among regions, with three main characteristics: i) a wide gap between the mining-intensive regions of the North, such as Antofagasta and Tarapaca, and the Metropolitan Region of Santiago on the one hand, and the agriculture-intensive regions such as La Araucanía, Coquimbo and Maule, on the other; ii) the concentration of business activity, firms and innovation in the Metropolitan Region of Santiago, which has 40% of the population and generates 48% of national GDP (Table 9.1); and iii) a lack of growth in key regions (some of the largest regions in economic and demographic terms, such as Bio- Bio and Valparaíso, have been growing more slowly than the national average both in aggregate and per capita terms in the past two decades (OECD, 2009a). To date, Chilean regions have not been able to fully utilise their assets and reach their growth potential, limiting national capacity for growth.

Table 9.1. **Basic regional data and indicators, Chile, 2009 or latest available year**

	Population <sup>2</sup> (Thousands)	Share of national GDP <sup>3</sup>	GDP per capita <sup>4</sup> (PPP)	Unemployment rate <sup>5</sup>	% poverty rate <sup>6</sup>
I. Tarapacá	307.4	3.9	15 308	5.7	15.7
II. Antofagasta	568.4	6.9	23 470	8.7	8
III. Atacama	278.5	2.0	13 911	9	17.4
IV. Coquimbo	708.4	2.6	7 033	8.1	16.6
V. Valparaíso	1739.9	8.8	9 722	11.2	15
RM Santiago	6814.6	48.3	13 573	9.8	11.5
VI. O'Higgins	874.8	4.0	8 711	9.4	12.7
VII. Maule	999.7	3.8	7 237	7.3	20.8
VIII. Bío-Bío	2023.0	10.0	9 415	11.3	21
IX. Araucanía	962.1	2.7	5 351	12.1	27.1
X. Los Lagos	825.8	4.9	7 824	7.8	14.2
XI. Aysén	103.7	0.7	12 780	4.6	14.8
XII. Magallanes	158.1	1.4	16 587	5.9	9.3
XIV. Los Ríos <sup>1</sup>	378.1	-	-	8.4	20.8
XV. Arica y Parinacota <sup>1</sup>	186.1	-	-	8.6	12.8

1. The regions of Los Ríos and Arica Parinacota were created in 2007; the former belonged to Los Lagos and the latter to Tarapacá. There are not segregated GDP figures for these regions.
2. Estimated population at 30 June 2009 (Source: INE).
3. Provisional data for 2008 from the Central Bank of Chile. Calculation based on the subtotal regionalised national GDP. GDP data are based on the former regional structure (twelve regions plus the Metropolitan Region).
4. OECD calculations based on data from the Central Bank of Chile. Data for 2008 expressed in 2003 USD constant PPP. GDP per capita data are based on the former regional structure (twelve regions plus the Metropolitan Region).
5. Data from INE for 2009.
6. Data from MIDEPLAN, based on the 2009 National Household Survey (CASEN).

Infrastructure in Chile has improved greatly in recent decades, but interregional disparities remain significant. Chile's challenging geography – its length exceeds its average width by a factor of more than 20 and its topography is varied and, in much of the country, difficult – presents a number of challenges for developing and managing the national infrastructure and providing access to communications and basic services, especially in remote and peripheral regions. Under Chile's infrastructure concession programme, which started in 1993, the transport infrastructure network was substantially improved; however, connections to peripheral areas and remote regions still need to be improved.

Interregional disparities in access to telecommunications remain significant: while close to 50% of households in the metropolitan region or in the mining regions of Tarapaca and Antofagasta have Internet access (a figure close to that of some OECD countries like Hungary, Italy or Spain), only 15% of the households do so in Maule and Araucanía (two of the agriculture-intensive regions). These inequalities broadly correspond to disparities in GDP per capita. Improving access to telecommunications represents a potential source of growth. Finally, interregional disparities among urban areas in access to basic public services (water, sanitation and electricity) are not significant, but they are in rural areas. Rural localities in Araucanía and Bio-Bio are particularly deficient in services provision, while those in northern regions require better access to water (OECD, 2009a).

The major earthquake that hit Chile in February 2010 seriously damaged the country's infrastructure. Four of the most affected regions – Maule, Bio-Bio, Araucanía and O'Higgins – are also some of the regions that already had the most important infrastructure deficiencies in their rural areas. Araucanía, Bio Bio and Maule are the three regions with the highest poverty rates in the country. The government has made significant investments to rebuild after the earthquake and repair the worst of the damage.

### ***From sectoral to territorial rural development***

There is a need to shift from sectoral agriculture policies towards comprehensive rural development programmes. The agricultural sector is a significant contributor to regional output in various Chilean regions like O'Higgins, Maule, Araucanía and Los Lagos. However, most agricultural regions lag behind in economic growth and development. In addition, small-scale farmers have seen little change in their farm incomes, with most of their gains coming from off-farm opportunities (OECD, 2008, 2009a). Close to half of rural households in Chile are employed in non-agricultural activities, basically in manufacturing and services, which offer an alternative or complementary source of income. Yet, national policies remain focused on agricultural promotion. OECD governments are increasingly recognising the need to shift from

traditional rural sectoral policies towards comprehensive place-based approaches to rural development (OECD, 2006a). Emerging off-farm activities like the development of renewable energy or rural tourism would offer interesting alternatives to Chilean rural areas. Rural place-based programmes that consider agricultural and non-agricultural policies and the links between rural and urban areas would be better adapted to the diverse socio-economic characteristics and productive processes that affect the development of Chile's rural territories.

### ***Inequalities in metropolitan areas***

The high degree of inequality in the cities of Santiago, Valparaíso and Concepcion is of particular concern, given the large social costs. Greater Santiago encompasses 35 *comunas*<sup>1</sup> (communes) which are highly polarised in terms of poverty rates. This inequality is also present in household incomes and levels of education: Santiago's richest *comuna* has an average household income eight times that of the poorest, as well as higher levels of education. In addition, richer communes have better education coverage (especially in pre-primary and higher education) and better results on basic education performance tests. High levels of inequality and spatial polarisation within the metropolitan areas also challenge social cohesion and social stability. Initiatives in education and social policies aimed at reducing inequalities have had some effect, but need to be expanded. Municipal governments face several interrelated limitations affecting management of the devolved responsibility for primary and secondary education (see OECD, 2009a). Improving access to quality education for underprivileged segments of the population will be crucial for tackling the challenges of poverty and income inequality in Chile.

### ***Regional diversity, but demographic and economic concentration***

The structure, characteristics and assets of Chile's regional economies are particularly varied. Chile is over 4 300 kilometres long and has a wide range of soil types, climates and environmental conditions, ranging from deserts in the north to lakes, fjords and glaciers in the south. However, in demographic and economic terms, Chile remains very concentrated. With 40% of the Chilean population living in the Metropolitan Region of Santiago and more than 60% in Santiago, Valparaíso and Bio-Bio, demographic concentration in Chile is almost twice the OECD average (OECD, 2009a). Santiago has most of the political, economic and human capital; Chile's innovation is concentrated there, as it is home to most of the country's high-quality tertiary education facilities. At the same time, the national economy depends heavily on a few sectors, mostly located in a small number of regions, which receive much of private and public investment. All these factors reinforce economic concentration and may cause regional imbalances to persist. Mining (18% of national GDP in 2008) and financial

services (15% of GDP) are concentrated in Antofagasta and Santiago, respectively. Antofagasta alone accounts for close to 50% of the value added in the mining sector; including Tarapaca and Atacama, the two other main northern mining regions, increases this share to more than 75%. Likewise, the Metropolitan Region accounts for 76% of value added in financial services, 46% of manufacturing and 64% of retail trade (Table 9.2).

Table 9.2. **GDP by selected sector/region, Chile, 2008**

Region	Mining	Financial services	Manufacturing	Retail trade	Construction	Transport and communications	Agriculture and forestry	Fishing
Tarapacá	17.6	1.2	1.5	6.1	2.7	2.8	0.5	10.0
Antofagasta	49.2	1.9	2.0	2.6	11.1	3.8	0.1	2.6
Atacama	9.8	1.1	0.3	1.1	3.9	1.0	2.0	3.4
Coquimbo	5.5	1.3	0.7	2.2	4.8	2.1	4.3	4.2
Valparaíso	5.1	5.2	13.7	5.2	10.8	8.8	11.7	0.9
Metropolitan region	4.8	76.2	46.0	64.5	40.6	57.0	13.8	0.0
O'Higgins	4.9	1.6	3.0	4.6	4.1	3.0	22.0	0.0
Maule	0.2	1.6	4.8	2.0	3.6	3.6	14.5	0.1
Biobío	0.5	4.6	20.3	4.5	8.8	7.6	13.9	16.5
Araucanía	0.2	1.6	2.6	2.1	3.4	2.2	6.7	0.1
Los Lagos	0.1	3.0	3.1	3.9	4.4	5.9	10.0	45.2
Aysén	0.4	0.2	0.2	0.3	0.9	0.6	0.3	11.1
Magallanes	1.8	0.5	1.8	1.0	0.9	1.7	0.2	5.8
Total	100	100	100	100	100	100	100	100
Share of each sector on national GDP	18.5	15.5	13.2	9.4	8.3	7.6	2.8	0.6

Notes: Regional GDP data by sector are expressed in constant 2003 prices; national GDP data by sector are expressed as a share of nominal 2008 prices. Data are preliminary figures of the Central Bank of Chile. Retail trade includes restaurants and hotels. Data for both Arica Parinacota and Los Ríos regions are included in Tarapacá and Los Lagos regions, respectively.

Source: OECD calculations using data from the Central Bank of Chile.

### **Diversifying Chile's productive base**

Chile could benefit from greater sectoral and geographic diversification, while continuing to add value to established sectors to make them more competitive. Chile's lack of economic diversification and over-dependence on primary commodities make the economy vulnerable to sudden changes in international commodity prices and secular shifts in demand, despite the stabilising role of the structural fiscal rule, and may constrain long-term growth potential. At the same time, resource dependence raises environmental concerns: intensive agriculture in the centre and south, and forestry and salmon platforms in the south, lead to soil erosion, loss of native forests, a rise in the presence of pesticides and fertilisers in rivers, and contamination of water from the salmon industry. In the north, intensive copper production results in emissions of arsenic and carbon monoxide into the

air and water around the mines. OECD countries are generally much less dependent than Chile on natural resources.

Chilean regions need to transform static advantages into dynamic ones by producing more complex and higher value added goods in the sectors of specialisation. Science, technology and innovation policy can play a key role by exploring new products in emerging sectors and by making existing sectors more productive and efficient. The technological upgrading of traditional industries for innovation-led growth can be a spur for regions like Valparaíso and Bio-Bio, and for the northern regions in which manufacturing is underdeveloped. The mining industry could be the nexus of a broad set of diversified and interrelated services and manufacturing activities. Furthermore, as Chile develops higher skills and technology in resource-based sectors, it can transfer knowledge and productivity gains to other sectors.

The clusters of competitive potential identified by Chile's National Council for Innovation and Competitiveness (CNIC) are mainly in mature sectors linked to natural resources (like fish farming, copper mining and fruit), which have clear advantages. However, in defining the clusters, there was little bottom-up input, which can be an obstacle to further productive diversification and to taking full advantage of the regions' diverse potential (OECD, 2009a). Regional bottom-up diagnoses can help to find untapped regional resources for diversifying the economy. It would also make it possible to take account of territorial spillovers among sectors and regional dynamics.

### ***The need for context-specific territorial policies***

Enhancing the productivity and competitiveness of regions requires agile, place-based policies. Regional growth will largely depend on how public policies adapt to the specific characteristics, opportunities and needs of the regions. Targeted place-based policies if well designed can improve the quality of public investments. At the same time, territorial policies can exploit synergies and thus ensure that local potential is comprehensively addressed. Boosting regional growth through context-specific territorial policies will encourage all regions to use their assets to reach their growth potential, thus benefiting national growth.

Chilean regions would benefit particularly from policies aimed at boosting productivity, such as those targeted at innovation and entrepreneurship and at improving education and training. These areas have a strong regional dimension, given the heterogeneity of Chilean territories, where growth opportunities are tied to local conditions, and resources are often underutilised. At the same time, diversifying regional economic structures would benefit from regionally driven strategies, capable of mobilising regional assets.

## Regional policies in Chile: mobilising innovation for regional development

### ***Building a national consensus for innovation***

During the last few years in Chile there has been a transition in the area of public policies for innovation. The creation of the National Council for Innovation and Competitiveness (CNIC) in 2005 helped provide a medium- and long-term view for the national strategy for innovation and competitiveness for 2006–20. The strategy takes a broad approach and identifies three main areas for action: human capital development, mission-oriented science and business innovation. Chile has increased the share of public resources allocated to support innovation: between 2005 and 2008, the innovation budget grew by 74% in real terms, although it is still relatively low by OECD standards (OECD and IADB, 2010).

Improving the participation of different stakeholders could strengthen the support for innovation. The experience of OECD countries shows that countries need to encourage the participation of different actors over time, thus advancing the process of consensus building. Identifying mechanisms for better and more effective participation of regional entities is a key challenge for the evolution of innovation policies in Chile. At the same time, involving representatives from academia and from the private sector in strategy planning exercises, a common practice in OECD countries, could help in designing instruments that better respond to the needs of beneficiaries (OECD and IADB, 2010).

### ***Developing regional innovation systems***

At present, Chile's innovation system is concentrated in the capital, to the detriment of regional innovation systems. Chile needs to move to a system that promotes regional-level innovation while maximising the diffusion of outcomes from the Santiago region. A specific challenge for developing a regional approach is the fact that innovation investment focuses strongly on public research and development (R&D), which tends to be carried out in the capital. Close to 40% of total R&D expenditure is carried out by universities, mainly located in Santiago: the two largest – the University of Chile and the Catholic University of Chile – account for a significant share of this R&D. Most private investment also goes to Santiago. Evidence from OECD countries suggests that the capacity of regions to support processes of learning and innovation is a key source of competitive advantage. This finding is complemented by academic research identifying the regional level as a key source of innovation (OECD 2007, 2009b, 2009c; European Commission, 2006).



In recent years, Chile has developed projects and programmes directed at strengthening the participation of regions in defining regional innovation and economic development policies. This is the case with the creation of the regional development agencies (ARDP). In 2006-07 the Chilean government established regional development agencies in order to move towards an integrated approach to regional productive development. The process was directed by the Chilean Economic Development Agency, CORFO. One of the main roles of the ARDP is to develop bottom-up regional agendas for productive development and innovation, and programmes for improved competitiveness (PMCs), based on regional assets, strengths and opportunities. In this process, the region and the various regional actors – public and private sectors, universities, civil society – become responsible for a long-term strategic view of the region's productive development. From 2011 the ARDP will be transformed into regional development corporations to progressively reduce their dependency on CORFO and increase their relationship with the Regional Council. The ARDP constitute a very important example of strengthening regional participation and public/private partnership in Chile. Other interesting initiatives include the regional allocation of the Innovation for Competitiveness Fund (FIC) and the Regional Scientific and Technological Centres of the CONICYT (Box 9.1). Some of these activities have been more successful than others; however, taken together they represent an important advance for strengthening the capacities for innovation at the regional level.

### **Improving vertical and horizontal co-ordination**

Chile is gradually evolving towards a model which gives more “voice” to regions. Clearly, there is a need for better horizontal<sup>2</sup> and vertical<sup>3</sup> co-ordination, including clarification of institutional responsibilities at the regional level in the area of innovation, and of the relationship between the ARDP and regional governments. In OECD countries, different levels of government are involved in innovation policy, and sometimes the level of sub-national spending on innovation can be significant (for example, in Germany and Spain). It is important, therefore, to manage the overlaps and gaps and to ensure synergy in the inevitable competence-sharing arrangements. Incentives are needed for both ensuring a coherent innovation policy and helping regions select the most appropriate strategies. The ARDP represented a crucial effort to build capacity in the regions in production, development and innovation, with strong support from the centre, which is to be gradually reduced. Regional development agencies are a common institution in OECD countries (e.g. Canada and the United Kingdom) to support co-ordination and public-private partnerships in local economic development.



### Box 9.1. Strengthening institutional capacities for innovation at regional level

#### Regional allocation of the Innovation for Competitiveness Fund (FIC)

The FIC was created in 2006 as an instrument to channel financial resources from the royalties in the mining sector towards innovation. Starting in 2008, 25% of the Fund's resources were allocated on a regional basis. The regional government, taking into consideration the national innovation strategy, the corresponding regional development strategy, the strategic innovation agenda and the plans for improving competitiveness of the regional development agencies, will define the use of these resources. The projects must focus on science, applied research, innovative entrepreneurship, specialised human resources formation and development, or the transfer and diffusion of technology. Finally, the resources must be transferred, through agreements, to CORFO, Innova Chile, CONICYT, state universities or those recognised by the state, and/or technological scientific centres of excellence.

#### CONICYT regional scientific and technical Centres

In 2000, CONICYT launched a regional programme on science and technology, supporting the establishment of 11 scientific and technological centres in 11 regions to stimulate the development of centres of excellence in disciplines or specific areas of research that are consistent with regional assets and advantages. The initiative is managed in conjunction with regional governments, universities and the private sector. However, few projects have been undertaken so far, and they represent a modest share of CONICYT's total budget (2.9% for 2008).

Source: OECD (2009a), *OECD Territorial Reviews: Chile 2009*, OECD Publishing, DOI: 10.1787/9789264060791-en; OECD and IADB (2010), "Strengthening Institutional Capacities for Innovation Policy Design and Implementation in Chile", <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35166758>.

#### Local capacity to assimilate knowledge spillovers

As examined at the 2006 OECD Rural Conference in Edinburgh (OECD, 2006b), innovation should involve investing in local capacity to assimilate knowledge spillovers. This links directly to investing in education and human capital in rural areas. Peripheral localities and rural areas in Chile need to have greater access to quality education, research and vocational training opportunities to improve their development potential. Further measures could include: improvements in work training programmes, bridging education and local labour markets, and creating regional learning centres to cover education needs in targeted areas.

## Regional development and governance in Chile

Chile is a highly centralised state. It is currently divided into 15 regions, 13 of which were created three decades ago and 2 at the beginning of 2007. The regions are subdivided into 52 provinces, which, in turn, are subdivided into communes (*comunas*) which are under municipal administration (*municipalidades*)<sup>4</sup>. Each administrative level has delegated functions.

The regional level has two categories of actors: deconcentrated<sup>5</sup> and decentralised. The former are representatives of the national government and include an intendant (the direct representative of the President of the Republic in each of the regions), ministerial regional secretaries (SEREMIS) and regional representatives of the national public agencies (Corfo, INDAP and FOSIS, among others) involved in delivering key public services. The decentralised regional government consists of the intendant and the regional council (CORE). The intendant heads the regional council, acting both as the main representative of the central government and as co-ordinator of regional policies. The CORE supervises, has decision-making, regulatory and supervisory powers, and is responsible for approving the region's development plans and its budget, which must be in line with the country's national development policy and the national budget. A reform is under way to elect regional councillors directly through democratic election. The main functions of the regional government are to: i) define and take investment decisions regarding use of resources from regional public investments, especially from the National Fund for Regional Development (FNDR)<sup>6</sup>; ii) design programmes and policies for regional development and productivity; iii) approve the regional development plan; iv) advise municipal governments; v) build and administer the paving of sidewalks and roads in rural areas; and vi) carry out various tasks related to land management, human settlements and infrastructure equipment.

Municipal governments (*municipalidades*) are autonomous legal entities with their own assets. They are governed by a mayor, who heads the local administration, and a municipal council, with decision-making, regulatory and supervisory functions. Both the mayor and the council are directly elected by citizens for four-year terms. Municipal governments have the following exclusive functions: the design, approval and modification of the municipal development plan; the municipality's planning and regulation and the preparation of its zoning plan; promotion of local development; enforcement of public transport; and enforcement of norms for construction. Local governments also have shared functions that include: public health, education, culture, citizen safety, work training and economic development, tourism, public transport, traffic regulations and construction of social housing development and sanitary infrastructure.

Chile has a very low degree of fiscal decentralisation compared to other OECD countries. Only Greece, New Zealand and Luxembourg have

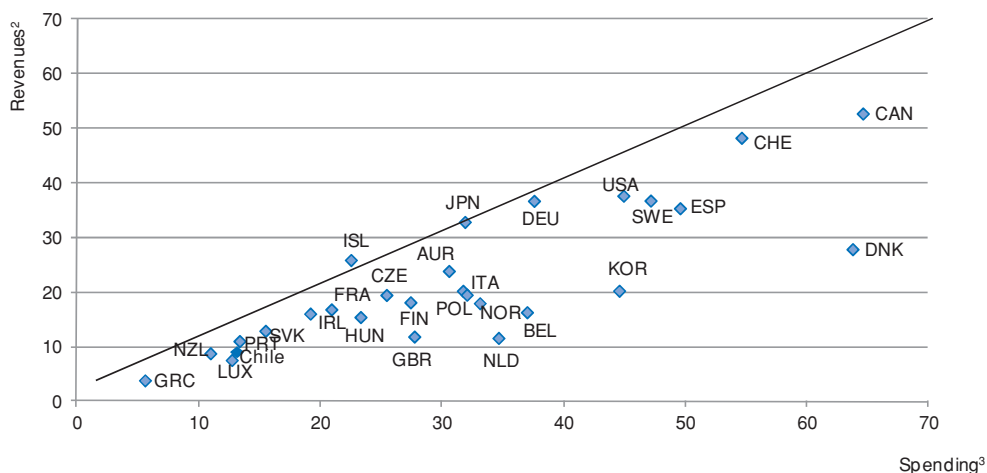
less sub-national fiscal autonomy than Chile. Sub-national revenues in Chile account for only 8.1% of total government revenues and sub-national expenditures amount to 13.2%, figures well below the respective OECD averages (see Figure 9.1). Under the tight administrative, fiscal and regulatory framework of the central state, sub-national actors remain largely controlled by national guidelines.

### Recent reforms to decentralise the administrative system

Several administrative functions have been transferred to the regional and local level in recent years, including responsibility for regional planning, which passed from the National Planning Ministry (Mideplan) to the regional governments, and the establishment of new regional planning divisions within regional governments. A recent reform, in the final stages of approval, will endow with legal status partnerships between different *municipalidades*. This is likely to favour the creation of associations between localities with common characteristics and the presentation of multi-municipal investment initiatives. Decentralisation reforms in Chile are part of a trend common to most OECD countries.

Figure 9.1. **Fiscal decentralisation in OECD countries, 2008<sup>1</sup>**

Share in general government revenues and expenditure



1. Or latest year available: 2005 for Chile, Korea, New Zealand and Poland.
2. Excluding transfers received from other levels of government.
3. Excluding transfers paid to other levels of government. Figures for Chile are estimates based on IMF, *Government Finance Statistic Yearbook*.
4. The share of sub-national revenues is expressed in percent of total government mainland revenues.

Source: OECD National Accounts (database); US Bureau of Economic Analysis; Chile: IMF, *Government Finance Statistic Yearbook*.

### ***Sub-national capacity building and performance measurement***

Investing in capacity building and performance measurement will be crucial in preparing sub-national governments to carry out efficiently their newly devolved competences, and will help to dispel one of the fears of opponents to these reforms, i.e. that sub-national public officials lack the capacity to carry out a broader mandate. Different programmes have been undertaken by the Under-secretariat for Regional and Administrative Development of Chile (Subdere) to improve the skills of local and regional public officials. Chile has also implemented several performance management programmes based on indicators, such as the Management Improvement Programme (PMG) and the Municipal Services Accreditation System. These programmes include monitoring and certification processes, and the use of indicators and training programmes that support municipal and regional governments to improve the capacity and responsiveness of their administrations.

Many OECD countries have introduced performance management and indicator systems to monitor public service provision and encourage capacity building at lower levels of government. Two interesting examples of such systems are Australia's Review of Government Service Provision, a comprehensive assessment that provides performance information on 14 areas of public service; and Norway's KOSTRA system, which collects and disseminates information about local government performance. Such benchmarking systems also provide information that can be used to evaluate the efficiency of sub-national budgets. However, observations from several OECD countries reveal that, apart from mechanisms to strengthen performance and improve local officials' skills, building capacity in the context of administrative decentralisation clearly benefits from the progressive involvement of sub-national governments in public affairs, in a framework of "learning by doing".

### ***Reforms adopted following the OECD Territorial Review***

On 16 October 2009, Chile approved a Constitutional Reform on Regional Government and Administration (Law 20.390). The OECD Territorial Review's recommendations were considered an asset in approving this constitutional reform.

- The Territorial Review recommended moving towards a solid regional governance structure and reinforcing the role and position of the regional council as a more autonomous unit. The Constitutional Reform included direct election of regional councils, creating a democratically elected body to manage regional development, and the election of presidents of the regional councils. A subsequent law will regulate the precise functions and attributions of the president of the council.
- The Territorial Review recommended strengthening multi-level governance arrangements, and reinforcing the Programming

Agreements (*acuerdos de programación*) to move towards multi-annual budgeting and multi-level planning. The Constitutional Reform included the institutionalisation of the Programming Agreements as binding contracts between one or more regions, ministries, municipalities or private institutions.

- The Territorial Review recommended establishing a governance system for metropolitan areas in order to ensure co-ordination in the delivery of key public services across the communes of the functional metropolitan areas. The Constitutional Reform recognises (for the first time) metropolitan areas as institutional entities; the precise definition of the characteristics and governance structure of these areas will be defined in a subsequent law.

### **Strengthening the institutional framework at the regional level**

Chile still requires a stronger institutional framework at the sub-national level to bring together and co-ordinate the different local players and the various programmes and instruments designed to promote territorial development. Most municipal governments currently have neither the resources nor the incentive to invest in local economic development initiatives. Additionally, a co-ordinated local governance structure will be needed, especially in big cities like Santiago, to improve the harmonisation of different sectoral policies in the metropolitan area (e.g. housing, land use planning and economic development) and to improve co-ordination in the delivery of key public services (especially public transport) across several communes within a city. The recognition of metropolitan areas within the constitutional reform (Law 20.390) will be developed in a subsequent law. This offers a great opportunity to develop an efficient metropolitan governance structure for Chile.

The strengthening of regional governance will involve important challenges: it is critical to give expanded responsibilities to regional governments to allow them to be active in the discussion, planning and co-ordination of regional policies. In parallel, there needs to be more institutionalised co-ordination between regional governments, line ministries and public agencies. At the same time, the investment process will need to be adapted to a territorial logic that makes it possible to finance integrated, multi-sectoral initiatives and a multi-annual budget planning framework.

The strengthening of the Programming Agreements is a good first step in co-ordinating regional and sectoral priorities and responsibilities for regional economic development. OECD governments use multi-level governance arrangements to improve the efficiency of relations between various levels of government in the formulation of public policies. Finally, the recently approved reform for the direct election of regional councils and the election of a president of this regional body could be

the starting point for reinforcing the councils' role, position and autonomy and increasing both motivation for regional development and accountability in regional policy making.

## Notes

1. *Comunas* (communes) are managed by *municipalidades* (municipal governments).
2. This co-ordination is needed among the various national agencies offering innovation-related programmes.
3. It is also needed among national and regional agencies, as well as regional universities and research centres.
4. *Municipalidades* may administer a group of *comunas*. In Chile there are currently 346 *comunas* and 345 *municipalidades*.
5. Deconcentration occurs when the central government disperses responsibilities for certain services to its regional branch offices, with no transfer of authority to lower levels of government (SIGMA, 2006).
6. One of the regional government's main roles is to oversee annually determined national transfers for regionally decided investments (mainly the FNDR), most of which finance local initiatives. While the regional government is an actor in the assignment process, allocation of the resources is regulated by the national budget law.

## Further reading

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**From:**  
**Maintaining Momentum**  
OECD Perspectives on Policy Challenges in Chile

**Access the complete publication at:**  
<https://doi.org/10.1787/9789264095199-en>

**Please cite this chapter as:**

OECD (2011), "Regional development policies: Co-ordination across levels of government", in *Maintaining Momentum: OECD Perspectives on Policy Challenges in Chile*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264095199-10-en>

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