

TECHNICAL COOPERATION PROFILE

CHILE

May 24, 1996

PROJECT NAME: Interoceanic Corridors

PROJECT NUMBER: TC-96-04118

PROJECT TEAM: Leader: Henry Green; other members - Jaime Sujoy (RE1/FI1); Mauricio De La Barra (COF/CCH); and Daniel Camp (consultant) also assisted in the preparation of this document.

EXECUTING AGENCY: Ministry of Public Works - Chile

BENEFICIARIES: Ministries of Public Works of Chile and neighboring countries (Argentina, Bolivia, Brazil, Paraguay, Uruguay, and also Perú regarding its southern region).

FINANCING PLAN:

IDB (Japan Special Fund):	US\$650,000
Local counterpart funding:	US\$100,000
Total:	US\$750,000

TENTATIVE DATES:

Next mission:	June, 1996
Loan Committee:	July, 1996
President:	July, 1996

I. Background

- 1.1 At a meeting held in Cuiabá, Brazil, on July 14, 1995, on the occasion of the Third Southern Cone Inter-parliamentary and Business Conference, the Ministers of Transportation and Public Works of Brazil, Paraguay, Bolivia, and Chile decided to instruct a multilateral working group, established in April 1995, to organize a technical meeting in Santiago, Chile.
- 1.2 The purpose of the meeting, in response to the goals of the respective governments to promote the process of regional physical integration, was to initiate a process to identify corridors that would facilitate linkage and promotion of trade within the Southern Cone between the Atlantic and Pacific basins.
- 1.3 To this end, integration alternatives would be presented at the meeting, which would later be submitted for evaluation by the respective Ministers, who would determine the measures necessary

for these initiatives to be presented to international financial institutions for consideration.

- 1.4 The meeting took place in Santiago on August 16, 17, and 18, 1995. Within the framework of the working group, it was decided to set up two committees - one on physical infrastructure and the other on traffic support and simplification of regulations. The first would continue with the studies aimed at defining the route of the priority corridors and presenting projects to the international financial institutions. The second will devote itself to seeking a regulatory and operational framework for traffic along the corridors.
- 1.5 In addition, the Ministers attending the meeting appraised a list of alternatives that resulted in two options of interoceanic corridors that would join the south of Brazil with ports in northern Chile and southern Peru. The works to be considered range from construction, improvement, and rehabilitation to development of new works that meet the objectives of integration.
- 1.6 After this event, another meeting was held in Santa Cruz, Bolivia during November 13 and 14, 1995 at a ministerial level, with the assistance of representatives of Argentina (which joined the group for the first time), Bolivia, Paraguay, Brazil, Uruguay, Chile and Perú.
- 1.7 In this meeting, the participants reaffirmed the political will of the Governments to work together to improve the investments in physical integration and to provide a better link within the region and the connection between the Atlantic and the Pacific. They agreed to create a technical working group with the objective of complementing the economic and technical information on the present infrastructure, the projects under execution and the future investment projects.
- 1.8 The present study follows the conclusions and recommendations from the infrastructure seminar held in March, 1996 at Buenos Aires in conjuncture with the Bank's annual meeting. The next steps will require the identification of the priority alternatives for the interoceanic corridor, and the definition of institutional and financing options to make viable the execution of the project. To achieve this objective, studies are needed which could be performed by one or two firms with experience in these areas.

II. Project Objectives and Description

- 2.1 The main outcome of the requested technical-cooperation operation is the preparation of a study that will establish the feasibility of a high-priority option for an inter-oceanic transportation corridor and related highway and rail segments, as well as the

institutional structure that would have to be set up to make project execution viable.

- 2.2 The general objective is to provide the framework to facilitate transport and decrease costs among the countries of the Pacific Coast and the countries of the southern cone region.
- 2.3 The study will establish the priority alternatives for an inter-oceanic corridor to be presented for consideration of the respective governments together with the respective preliminary estimate of benefits, costs and financial requirements. The result will be investment projects with well-defined characteristics and the institutional, legal, and regulatory framework to make the investments viable.
- 2.4 The Government of Chile, through its Ministry of Public Works will be the executor of the studies. Chile has been so far the main sponsor of the project, and is willing to undertake the coordination of the activities of the several countries involved in this project. The Government of Chile has a particular interest in the concretion of this regional project due to the importance of its trade with Japan and the countries of the Pacific Rim.
- 2.5 A consortium of firms that together have experience in both economic-technical and institutional evaluations, would be hired via international competition to conduct this feasibility study.

III. Special Issues

- 3.1 Various studies have been carried out in recent years for improving the inter-oceanic transportation routes and various "commissions" are pursuing solutions to facilitate regional integration. The implementation of proposals that have resulted from these studies would involve binational or multinational solutions. Now that Chile, which by its geographical situation would be a party to most of the actions required, is coordinating the studies and relations with the transportation sector counterparts in the countries involved, there could be a greater impetus to undertake the various investment projects necessary to achieve the desired benefits.
- 3.2 To be successful a program of infrastructure investments for this project will also require close coordination by the Bank in its programming exercises with each of the countries in the region and coordination of hiring of consultants for studies in each country.
- 3.3 Institutional and financing alternatives that can be used for project execution should be examined, including: (i) the possible participation of the private sector in each country; (ii) the possibility of setting up international joint ventures; and (iii) other alternatives that would make it possible to effectively channel financial resources in a manner compatible with timely

execution of the works. This is of particular interest with regard to works in Bolivia and Paraguay. In both countries there is a scarcity of national funding for project execution and the Bank has very limited resources to lend to these countries.

- 3.4 An analysis must be conducted of regulatory factors that need to be resolved so that the direct costs of transportation between countries approach those that can effectively be paid by users (tariff problems, regulations that require transfer of merchandise from one vehicle to another, etc.).
- 3.5 This study could have a decisive impact on the possibility of executing works to integrate the transportation infrastructure, the benefits of which would extend to the countries in a region that has already taken essential steps toward integration of its economies through the establishment of MERCOSUR.

IV. Action Plan

- 4.1 An orientation mission to Chile is planned for June, 1996 to coordinate the preparation of the environmental brief, as well as the terms of reference and announcement for the hiring of the consulting firm.
- 4.2 The Bank staff will have to participate fully in future meetings of the working group of the countries' ministries, involving both headquarters (REL/FIL) and Country Office staffs.
- 4.3 The Bank team is also working to develop parallel financing for other consultants to work in neighboring countries to interact with the firm to be hired under this operation.