

Assessment and recommendations

Overview

Chile is a highly urbanised country. Almost 77% of its population lives in a metropolitan or other functional urban area. At the same time, its cities are quite heterogeneous in size, composition and resource capacity. The country has grown successfully and urbanised rapidly, despite the lack of a unified urban policy. Today, Chile finds it has outgrown many of the mechanisms and instruments that have hitherto framed and guided urban development and management, and it is actively evaluating policy and governance options suitable for constructing a more dynamic and integrated approach to urbanism.

As its cities and metropolitan areas continue to grow, Chile will need to identify ways to ensure more coherent policy design and implementation in urbanism. The highly siloed nature of ministerial activity, a strong centrist approach to sub-national governance and municipal resource gaps have resulted in policy incoherence at the urban level. This, in turn, has compounded inter- and intra-urban disparities. No one policy sector is responsible for the urban challenges Chile faces in socio-spatial segregation, inequality or access to public services. These are not the result of a single policy approach or initiative; rather they stem from the inconsistencies that arise when policies with urban impact – e.g. land use, housing, public transport and environmental management – are designed and implemented independently of one another.

Overcoming these challenges will take time and greater capacity in institutional co-ordination and co-operation within and among all levels of government. It will also require institutionally based approaches to urban governance. Success will depend on the legitimacy, autonomy and resources of such institutions and their capacity to respond to local needs with the agility that is required by today's more complex policy challenges and societal demands.

As this *OECD Urban Policy Review* of Chile is being researched and written, Chile is also developing a National Urban Development Policy. This OECD report is not intended as a policy proposal for Chile's initiative, nor as a statement on the content of the policy, which is still being defined. The report's goal is to review Chile's urban development, and the challenges, successes and governance institutions that help or hinder successful policy outcomes in the urban space. It begins by presenting Chile's urban system and current challenges from an economic and socio-economic perspective. Chapter 2 focuses on the instruments that frame urban development at the local and regional levels. It then looks at four individual policy areas with significant urban impact – land use, housing, public transportation and the environment. Chapter 3 is dedicated to evaluating Chile's urban governance architecture – its institutions and frameworks – as a means of identifying options for reducing the impact of administrative and institutional fragmentation and of

building greater coherence in metropolitan and general urban management. The assessments and recommendations that follow highlight key findings in each of the report's three chapters, and provide recommendations for Chile as it moves forward in updating its approach to urbanism.

The Chilean urban system and its challenges

The quality of life in Chile has improved significantly in the past decades, and in general, Chileans report greater satisfaction with their lives than the OECD average – 77% in Chile compared to the OECD average of 72%. Nevertheless, Chile ranks lower than many other OECD members in a variety of quality-of-life indicators directly relevant to urbanism, including housing, income, jobs and environmental quality.

Key urban population and economic trends in Chile

A growing urban population

Chile's urbanisation rates (in terms of population) are comparable to other OECD countries, including Australia, France, Japan and Korea. However, the different population growth rates among Chile's functional urban areas (FUAs) – ranging from under 0.1% (Calama) to more than 3% (Puerto Montt) – may reflect different socio-economic conditions with implications for urban public policy. For example, the discrepancies are considered to be linked, at least in part, to the employment market: some cities are more attractive to businesses than others, or have home-based industries or employment, or industries with greater job possibilities, and thus offer greater or more diversified employment opportunities.

The size of an FUA in Chile appears to be an important factor in population growth. With the exception of the three metropolitan areas, which are experiencing below or just above-average growth, the larger the FUA, the faster it seems to grow. In other words, growth is concentrated in a second tier of dynamically developing cities. This means that attention will need to be paid to the infrastructure, development and governance frameworks in the rapidly growing medium-sized FUAs (e.g. Antofagasta, Coquimbo/La Serena and Puerto Montt). That said, it is the metropolitan areas that have attracted most of the population growth in terms of absolute numbers, Santiago, Valparaíso and Concepción, account, on aggregate, for 60% of the total urban population growth.

Economic growth and economic opportunities

In the period following the global financial and economic crisis, Chile's economy exhibited resilient growth, with an average annual growth rate of 5.7% in 2009-2011. The performance of different cities, however, was very uneven. While some grew quickly (e.g. Copiapó and Coquimbo/La Serena), others contracted (e.g. Iquique, Calama, Antofagasta).

Urban areas are the engines of Chile's economy. The 26 FUAs identified by the OECD represent over 84% of national GDP growth in 2003-2006. Santiago alone saw approximately 50% of national GDP growth for those same years. It is estimated that about 70% of national economic growth prior to the global financial and economic crisis occurred in six of Chile's cities: Santiago (50%), Concepción (5.7%), Valparaíso (5.4%), Antofagasta (4.7%), Puerto Montt (2.6%) and Temuco (2%). Chilean economic expansion depends on a handful of cities, and potential economic opportunities have not been exploited in the rest of the urban system, whose economic performance has not been as robust.

Despite the dominance of Santiago and the relative strength of the other two metropolitan areas, the activity of Chile's medium-sized and small cities suggests that the urban system could potentially realise even greater benefits if the focus of urban policy were not exclusively on the three metropolitan regions. Infrastructure investments, an active competitiveness policy and investments in education and human capital can improve the economic performance of all Chilean cities.

Identifying some of Chile's urban challenges

Growing urban inequality and poverty

Urban areas in Chile are growing rapidly, and contributing the largest share of national economic growth, but they also face major challenges associated with inequality. For example, the disparities that can be found in estimated GDP per capita across municipalities in the Santiago FUA are considerably higher than those in London, Budapest or Warsaw. Equally worrisome is the growing inequality among Chile's FUAs. While Santiago is the FUA with the largest inter-municipal disparities, these have been declining since 2003. Meanwhile, since 2003, inequality has increased within the other two metropolitan areas. The same is true in medium-sized cities such as Rancagua and Temuco.

Poverty, another expression of inequality, has been rising in most Chilean FUAs. While poverty levels are quite heterogeneous (ranging from 7.2% to more than 25%), it is disconcerting that poverty is growing in 20 out of the 26 FUAs, and in some cases at surprisingly high rates.

Poverty could be developing as an urban phenomenon in Chile. While national poverty levels have been dropping since the late 1980s, they continue to grow in certain urban areas. There appears to be an inverse relationship between initial poverty rates and poverty growth – i.e. poverty levels have risen in the areas that typically had relatively low poverty rates in the past, and declined in areas that were traditionally poor. This may be due to domestic migration patterns, since there appears to be an inverse relationship between initial poverty rates in 2006 and population growth during the 2006-2012 period. However, further research into this phenomenon is warranted.

Environmental sustainability

Chile's cities face high levels of air pollution. In the OECD's *Better Life Index*, Chile ranks last among OECD countries in terms of environmental indicators, which include air pollution, though it scores high in water quality. In general, Chilean cities with a high concentration of population (Santiago, Valparaíso and Concepción) and heavily industrialised cities such as Calama and Antofagasta have low air quality. In terms of waste management, however, Chile performs quite well, having a low rate of municipal waste generation per capita compared to other OECD countries. Wastewater management and wastewater treatment quality is also satisfactory both on a national scale and by comparison with other OECD countries.

Key recommendations for addressing challenging urban trends in Chile

- **Develop a single and clear definition of urban versus metropolitan areas** to more effectively guide policy and decision makers.
- **Ensure that growth-oriented initiatives and policies** (e.g. infrastructure investment, active competitiveness policies, education policy and jobs and skills policy), **are targeted as much to medium-sized and small cities** as to metropolitan areas.
- **Identify whether policy-based responses are needed to slow poverty growth**, for example through further research into the underlying causes of poverty and by determining possible links with domestic migration.

Frameworks and sectoral policies for urban development in Chile

Urban planning and management frameworks have a strong impact on how cities grow physically, economically and socially. Chile has a combination of statutory and non-statutory land-planning instruments and management instruments, which, for various reasons, can be difficult to co-ordinate. In addition, several policy areas play a significant role in shaping the urban landscape, particularly in land use, housing, public transport and environmental sustainability. Traditionally in Chile, as elsewhere, these have been treated as discrete policy matters, and little attention has been paid to the linkages between them and the effects (both positive and negative) that adjusting one may have on the others. Urban planning and management frameworks, together with public policy interventions, should be designed respecting and reflecting this dynamic relationship. Those responsible for urban development in Chile are not unaware of this issue, but need more effective mechanisms to enhance the urban process.

Chile's urban planning and management frameworks

A more flexible planning and co-ordination process is needed

Chile's regional and local land-planning instruments – the Regional Plan for Urban Development (*Plan Regional de Desarrollo Urbano/PRDU*) – and three types of Regulating Plans (*Plan Regulador Comunal, Inter-comunal and Metropolitano/PRC/PRI/PRM*) were designed in the 1960s, and at least in the case of Regulating Plans, are based on legislation dating from the 1930s. They remain static and are not adapted to the current dynamic urban reality. The complex administrative procedures for approving or amending Regulating Plans, and the number of documents that are required when submitting them, result in lengthy and involved administrative and political processes. This often renders the new, renewed, or amended plans obsolete upon approval. However, when faced with urgent reconstruction due to an earthquake or other natural disaster, for example, PRC approval processes are significantly streamlined and can be completed within two and a half years rather than the average of seven associated with the regular process.

In addition to greater planning flexibility, further co-ordination and policy coherence in the urban space is necessary. It may be unrealistic to expect this from the PRC/PRI/PRM, as these plans were designed to regulate land use, construction and the physical development of urban areas. Instead, a management instrument that can promote more integrated urban development, programming or service delivery – one from which the land-use plans cascade down – becomes essential for ensuring overall coherence. The

Municipal Development Plans (*Plan de Desarrollo Comunal/PLADECO*) may provide such an instrument. Given their comprehensive approach, PLADECO represent an interesting management tool for promoting coherence between urban development, land-use planning and general economic development.

Institutional co-ordination can enhance policy coherence

Chile has embarked on the significant undertaking of establishing a National Regional Development Policy, a National Urban Development Policy and a National Rural Development Policy. This emphasis on overall territorial development will significantly enhance urban development and management in Chile. Yet the success of these policies may hinge on Chile's capacity to address a lack of strategic and institutional co-ordination in territorial matters. From a strategic programming perspective, this can be partially achieved by establishing a territorial vision and strategic objectives (i.e. how Chile would like its territory to develop physically, economically, socially and culturally in the next 10, 15 and 25 years) and supporting these goals through national urban and rural policy. From an institutional angle, mechanisms and incentives to ensure that urban development is coherent with regional ambitions are called for. One of the factors inhibiting greater coherence and co-ordination may be the fragmentation of territorial responsibility between the Secretariat for Regional Development and Administration within the Ministry of Interior (SUDERE), which supervises regional and rural development, and the Ministry of Housing and Urbanism (MINVU), which supervises urban development. If Chile's regional development objective is to provide a framework for an integrated approach to its territorial development, it may need to consider placing the responsibility for such development – including urban development issues – under a single roof.

Land-use policies

The current land-use planning system could better support urban development if the zoning system were made more flexible; if infill development were more strongly incentivised; and if there were a national framework for designating and developing natural-hazard risk zones in urban areas. The existing zoning system may present an obstacle for new development. The established zones tend to be static and become obsolete more quickly than PRs are renewed or updated, and they tend to limit opportunities for redeveloping under-utilised areas within urban boundaries for new uses, such as multi-family housing. Another key criticism of land-use policies in Chile is that the urban boundaries allow for development outside the established urban perimeter, particularly of social housing, without adequately ensuring services to those developments. Policy instruments that could address these challenges, such as flexible or mixed-use zoning and infill development, are already provided for in Chilean national regulations, but they could be more effective and more widely used. For example, mixed-use designations are allowed by Chilean national law, but the problem of unnecessarily segregated land use persists and contributes to congestion and air pollution by increasing the travel distances between home, work, and commercial and leisure activities.

The Chilean national government recognises the need to address the risk of natural hazards through the land-use planning system more systematically. Depending on their location, Chile's cities face risks from flooding, landslides, tsunamis, forest fires and earthquakes. The General Law of Urban Development and Construction provides a definition for risk areas (*areas de riesgo*), and a related ordinance permits PRs to include risk

studies and designate risk zones (*zonas de riesgo*) and no-construction zones (*zonas no edificables*) as defined by the ordinance. This is complemented by rigorous construction standards that are considered international models for earthquake safety. However, the national government does not define what constitutes “risk zones” or provide parameters for designating them, and each PR can establish its own identification of risk zones. Further, national planning norms do not prohibit construction in natural hazard risk zones, but allow each municipality to decide the allowable land uses and conditions for development in those zones. This results in a fragmented approach to natural hazard risk planning. The designation of natural hazard risk zones should be determined at the national level, so that municipalities can apply norms set by the government, particularly in light of the February 2010 earthquake and tsunami.

Housing policies

Thanks to an ambitious housing policy, Chile has sharply reduced its housing deficit and has helped ensure that adequate housing is available for all segments of society. Urban areas have directly benefited from the growth in housing. Every FUA in Chile saw an increase in its housing stock between 2002 and 2012, and price growth has been relatively contained. These policies, however, are excessively focused on volume, neglecting important aspects critical for their long-term effectiveness, including quality, location and co-ordination with other urban development policies (e.g. public transportation and urban land use). The result is a concentration of social housing on the periphery of select municipalities – areas that are normally far from job and service centres, lack transport services and infrastructure and face a high incidence of social problems (i.e. poverty, unemployment and criminality).

Chile may need to consider some of the unintended consequences of its housing policy. Public support for housing markets and the policy emphasis on home ownership may be hurting labour markets in more dynamic urban areas. Chile has one of the smallest rental markets and one of the lowest rates of residential mobility in the OECD. Government support for home ownership has fostered a market that leads housing developers to build in peripheral locations, often far from jobs, public services and other urban amenities. Unintentionally, such support may hinder social mobility and contribute to poverty and inequality. Also unintentionally, policies in favour of home ownership may provide perverse incentives for residential mobility. As new, better-quality housing units and complexes are built, with better urban amenities, older housing becomes less attractive. Owners of older units may be discouraged from seeking or taking new job opportunities elsewhere, rendering local labour markets less flexible. This may hold back dynamic areas. Another unintended consequence of Chile’s housing policy has been a contribution to socio-spatial segregation.

Finally, the social targeting of Chile’s extensive subsidy system needs re-evaluation. Evidence suggests that Chile’s means proxy test (*Ficha de Protección Social*), which is used to determine eligibility for a subsidy, is an imprecise and unreliable measure of income and household situation. To maximise the limited resources and improve outcomes for lower-income families in urban areas, the government should consider focusing more on the most vulnerable segments of society. This could also discourage better-off families from demanding housing subsidies, freeing resources for those in need. Such efforts should be structured as a means to better target existing resources rather than as reducing public investment in housing.

Further limiting tax exemptions for housing would complement stronger inclusionary policies. The government should consider modifications to property tax exemptions, which generate a heavy burden for low-income municipalities that lack the resources to invest in local economic development. Social housing is developed according to central-level, top-down planning processes; municipal authorities are not fully consulted over social housing, its placement and the service costs it generates. This puts municipalities with social or low-cost housing in a difficult position: their tax capacity is lower, given the property tax exemptions associated with such housing, yet they must provide local investment in infrastructure and services for the new settlements (e.g. paving, lighting, drainage, basic health care and primary and secondary education). Among the ways to address this imbalance are phasing out certain property-tax exemptions (e.g. for DFL2 houses); applying the tax exemption only to low-income properties belonging to households under the poverty level; and further compensating municipalities for lost tax revenues.

Public transport policies

Public transport and transport infrastructure are crucial for improving the quality of life, mobility and business opportunities of urban residents. The transport sector in Chile has progressed greatly in recent decades: public transport is more widely available within and between cities and the quality and extent of transport infrastructure has improved. However, transport provision could still be expanded and diversified and transport policy could be better integrated within an overall urban planning system.

The socio-spatial segregation patterns of Chilean urban areas and the challenge of developing a co-ordinated public transport system will need to be considered when designing and implementing public transport initiatives. Lengthy travel times are typical, and many areas have insufficient coverage or lack intermodal co-ordination (i.e. transfer points between buses and suburban trains or the metro). There is also a need to redirect attention and resources to non-metropolitan urban areas that face sprawl, congestion, pollution and social segregation. While significant emphasis has been placed on resolving transport challenges in Santiago, many other cities (e.g. Antofagasta, Coquimbo, Temuco) face insufficient coverage, low running frequencies, lack of intermodal co-ordination and a lack of basic urban transport infrastructure. Given their growing economic importance, such urban areas should not be overlooked.

Finally, public transport is a vital means of managing congestion and pollution. While public transport is well patronised in Chile's cities, more widespread use may be deterred by real or perceived impressions that it is inefficient, unclean or unsafe. Passengers must have an incentive for using public transport services, e.g. a faster commute time, reduced costs, greater comfort and/or safety. Transport infrastructure could be further diversified in terms of mode (e.g. bus, tramway, subway) and connectivity improved, but attention will also need to be paid to enhancing performance, attractiveness and efficiency.

Environmental policies

The environmental performance of Chilean cities has improved in recent decades, but a range of challenges remain. Air quality is the primary concern, followed by maintaining water quality which is currently good, managing the impact of urban areas on surrounding ecosystems and ensuring access to open space. National standards exist, but a mismatch between incentives and targets at the municipal level and a lack of inter-municipal

co-ordination has led to striking environmental disparities within functional urban areas. Two mechanisms exist in Chile for assessing the environmental impacts of urban development. The Environmental Impact Assessment System (*Sistema de Evaluación de Impacto Ambiental/SEIA*) is widely applied to urban developments, but is limited to case-by-case treatment of environmental externalities. This prevents the SEIA from considering how a project's mitigation, compensation or repair of environmental impacts may influence an urban area's overall environmental quality. The Strategic Environmental Evaluation (*Evaluación Ambiental Estratégica/EAE*) has the potential to strategically assess the sustainability of urban development, as it evaluates the risks and effects of PRs and other territorial plans, but it was recently introduced and has not yet realised its potential for establishing long-term objectives for an urban area's environmental impact or integrating those objectives in an over-arching master plan.

Key recommendations for urban frameworks and sector policies in Chile

The OECD recommends that Chile strengthen its urban frameworks, as well as its sectoral policies and their integration in such areas as urban development and management, land-use planning, housing, public transport and the environment. Detailed recommendations for these areas include:

Urban planning and management frameworks

- **Streamline the PRC/PRI/PRM approval process.** This might include a mechanism limiting the approval process to a specified period of time, and establishing that no plan may be delayed at any one stage of the approval process beyond a given amount of time. Any new process will require resources and incentive mechanisms to ensure that the current causes of delays are not repeated in another stage of the process. It can also mean more clearly defining the roles and responsibilities of the different actors in the process.
- **Build greater coherence in territorial policy at the central government level by placing responsibility for territorial development – regional, urban and rural – under one ministry.** This can help overcome difficulties in institutional and strategic co-ordination for territorial development and management. It could also create the institutional framework necessary to align long-term territorial development strategy and territorial policies (whether regional, urban or rural) and enhance co-ordination at the central level among ministries with urban responsibilities.
- **Build coherence among urban planning and management documents,** for example by better defining their role and interaction, and by re-evaluating them for overlap.
- **Give sub-national governments (regional and local) a greater role in shaping their development process.**
 - ❖ Better incorporate local and regional government participation in the development of urban planning documents, particularly PRI/PRM and regional plans, as well as the nationally defined sectoral programmes for urban development.
 - ❖ Reinforce regional and municipal/urban development strategies (ERD, PLADECO), building capacity and developing incentives to ensure appropriate linkages among them, and addressing resource gaps.
 - ❖ Set a regionally based strategic planning agenda as a guiding framework for sectoral initiatives in each region.

Key recommendations for urban frameworks and sector policies in Chile (cont.)

Land-use planning

- **Prioritise infill development, and/or the development of vacant and underutilised lands within urban boundaries.** While infill development is allowed in Chilean cities, private-sector developers, which account for 80% of urban investment, tend to find greater returns on investments in undeveloped land outside urban cores. A national target for infill development could help motivate private-sector investment. Such a target could be strengthened by national technical assistance to help cities catalogue underdeveloped urban land and to make this information available to potential developers. The goal would not be to privilege infill development at all costs, but rather to balance the market forces that provide incentives for greenfield development to the detriment of infill development.
- **Establish national guidance on principles of urban form** to guide cities in shaping the decisions made by the private sector. A vision for urban form and conditions for development should be established by the central government in consultation with local governments, private-sector developers and civil society organisations. This would need to include targets for mixes of land use, density and access to services including transport and education. A national land-use framework that encourages municipalities to increase their share of flexible, mixed-use zones would also facilitate this. In areas of conditional planning that lack zoning, an alternative set of standards would need to ensure a minimum level of services and manage negative externalities. By ensuring that these standards are consistent throughout each functional urban area, the likelihood of disparities among municipalities could be reduced. Conditions governing new developments should be simple enough to reduce approval delays and comprehensive enough to meet functional city-wide development objectives.
- **Internalise externalities of the development of greenfield land at the urban fringe.** For example, developer fees and value-capture taxes can act as a disincentive for greenfield development while raising revenue for urban services, such as public transport to reduce congestion and green spaces to mitigate higher densities. Development fees would need to be greater for greenfield development than for infill development, as the actual cost of providing services to newer developments tends to be higher. Value-capture taxes can also help recover the value created by urban investments by taxing the increases in property value that result from increased access to urban amenities, such as public transport.
- **Create a national-level definition of natural hazard zones and specify the conditions for development and types of land uses applicable to these zones.** This should be accompanied by a national standard for mapping natural hazard zones and provide national technical assistance to municipalities carrying out the mapping. Land use in zones identified as at highest risk by these maps should be restricted, for example by prohibiting all uses but recreation and agriculture. For lower-risk zones, building codes rather than land-use restrictions could reasonably be applied, but the restrictiveness of building codes should be linked to the degree of risk of natural hazards expected in those zones.

Housing policies

- **Improve the targeting of housing policies to those most in need.**
 - ❖ Consider restricting subsidies to middle-income groups to housing that is located in “social integration projects”. This could further promote mixed-income housing areas, and discourage better-off families from demanding housing subsidies.

Key recommendations for urban frameworks and sector policies in Chile (cont.)

- **Provide social housing in centrally located areas to enhance connectivity and reduce the risk of socio-spatial segregation.** While centrally located land can be more expensive in the short term, its existing infrastructure saves building costs, and better accessibility reduces commuting time and its associated costs, including pollution.
 - ❖ Further improve the effectiveness of the current location subsidy.
 - ❖ Continue efforts to recuperate and upgrade deteriorated areas of city centres; encourage the development of under-used land and the rehabilitation of degraded houses and buildings in city centres.
 - ❖ Counteract potential city centre gentrification: public authorities can require developers who demolish existing affordable units in central areas to build new ones in their place or to pay a special fee to be used for building new affordable housing; institute a monitoring system of the current housing stock by price, standard, tenure and occupancy.
 - ❖ Further promote incentives and regulation-based inclusionary policies, including those requiring developers to set aside a specified proportion of affordable housing units in large developments, and/or to build mixed-income houses in well-located areas.
 - ❖ Limit housing VAT tax exemptions to the development of affordable housing (e.g. vulnerable and emerging groups), for example, giving special tax treatment to affordable housing built in well-located areas in city centres as a way to boost supply and promote interest from developers.
 - ❖ Create a pool of social housing units to be leased out to eligible vulnerable households through a below-market use contract by leveraging the perpetual use of social housing for rent in central areas.
- **Build stronger co-ordination between housing and other urban development policies** (e.g. infrastructure, public transport and social development) to help improve social housing conditions and the quality and social outcomes of future housing policies.

Public transport policies

- **Enhance public transport service** by improving co-ordination between the different collective transport modes; physically extending services; and giving public transport traffic priority over other traffic at intersections and on roads.
- **Introduce parallel measures to make automobile use more efficient** and/or to reduce the use of cars by individuals, including restricting vehicle access to certain zones (e.g. historic centres), developing incentives for ride-sharing, or promoting the use of bicycles and pedestrian travel.
- **Promote public transport and infrastructure facilities in cities outside Santiago** to encourage the economic development of other urban areas and to counterbalance the concentration of economic activities, population, congestion and pollution in metropolitan areas.
- **Introduce frequent-traveller reduction fees** to encourage the use of public transport and curb prices.
- **Improve public transport access and accessibility in low-income municipalities** to facilitate access to job opportunities and services, reduce traffic congestion and pollution, and enhance overall quality of life. Developing and enforcing a comprehensive urban planning system that promotes policy coherence and synergies between transport and related development policies is essential.

Key recommendations for urban frameworks and sector policies in Chile (cont.)

- **Actively involve local institutions early on and throughout the design and development of transport-related initiatives** as a means to match transport initiatives with specific local needs and overall urban dynamics.

Environmental policies

- **Broaden the mandate of the Strategic Environmental Evaluations (EAEs)** to evaluate the overall impact of urban growth on environmental performance and quality of life; consider integrating into the EAEs mechanisms to offset biodiversity losses caused by urban expansion by improving the health of ecosystems elsewhere.
- **Address air pollution** by disincentivising car ownership, which also means redesigning municipal revenue streams that depend on vehicle taxes. This could be complemented by incentives for alternatively powered vehicles (e.g. electric, hybrid), particularly those associated with public transport, but also private cars.
- **Establish pollution reduction plans across administrative boundaries**, taking “air-sheds” into account.
- **Ensure a more integrated approach to watershed management** to maintain the already good overall water provision and quality in Chilean cities and to reduce variations among different municipalities. Future efforts at watershed-based management could include establishing river basin organisations and co-ordinating watershed management.
- **Better manage the impact of urban expansion on flooding**, in part through a more comprehensive approach to managing storm water drainage and also through increasing the permeability of road surfaces.
- **Ensure sufficient access to green space per capita**, in particular in lower-income urban areas. One mechanism for smoothing out green space disparities between communities may be to create inter-municipal or regional park agencies that can pool resources and issue bonds for green space development and maintenance.

Revitalising Chile’s urban governance architecture

Improving Chile’s ability to enhance its urban outcomes depends on moving towards a strategically driven, integrated approach to urban development and policy formulation. The urban governance architecture will need to address its current severe administrative and institutional fragmentation. Success will depend on bringing central and sub-national, public and private actors together and building a “whole-of-city” approach to urban initiatives. It will also entail enhancing capacity for cross-sectoral policy making and ensuring that policy initiatives cascade down from broader strategic objectives and are aligned and coherent with each other. Finally, greater autonomy in urban administration and management for sub-national actors will be critical. Adjustments in the governance architecture – institutions and frameworks – should target overcoming or at least mitigating the impact of fragmentation, adding flexibility to sub-national finance and competence allocation, and building broad-based commitment to urban solutions, thereby introducing a much needed degree of local-level ownership in urban activity and outcomes.

Building coherence among governance institutions

Urban development and management is divided among central, regional and local actors. At the national level, the Ministry of Housing and Urbanism (*Ministerio de Vivienda y Urbanismo*/MINVU) has overall responsibility for urban policy and planning. In addition, the Ministries of Public Works (*Ministerio de Obras Publicas*/MOP) and Transport and Telecommunications (*Ministerio de Transporte y Telecomunicaciones*/MTT) also play a strong role in the urban space, particularly with respect to infrastructure (MOP) and transport policies (MTT). The Ministry of Interior's Subsecretariat for Regional Development (SUBDERE) co-ordinates regional affairs and regional development across Chile, including rural development and rural policy, but it has no direct involvement in urban development matters. The result is a strict separation of urban management from that of the rest of the territory, which risks creating a "Swiss cheese" effect in territorial development, co-ordination and management. This institutional structure limits the capacity to take an integrated approach to regional or local concerns with urban implications. At the regional level, the various institutional actors – the executive (*Intendente*), regional governments (GORE), the representatives of line ministries (SEREMI) and the Regional Councils – all intervene in regional development and local development. The responsibilities and lines of accountability of these institutions can be unclear. At the local level, municipalities are legally autonomous, public corporations, but their practical autonomy in fiscal, financial and urban management is limited.

The confluence of all of these actors in the urban process makes it critical to develop institutional and planning frameworks that promote a coherent approach. Co-ordination and collaboration in policy programming are infrequent at present, however, and approaches to urban development and management remain siloed and with limited cross-sectoral dialogue and/or consultation.

Addressing sub-national finance and competence allocation

Finance and budgeting practices could better support sub-national development objectives and the policies and programmes designed to achieve them. At present, urban programming is not linked to budget lines and there is little sub-national autonomy in fund allocation. This reinforces a system that functions on short-term plans and projects, unable to undertake long-term development planning. Multi-annual budgeting and planning frameworks could be one mechanism to help address this issue, while also strengthening the finance and planning capacity of sub-national authorities. The present sub-national funding mechanisms are also a source of inefficiency between regional and local levels in service delivery, and do not effectively offer incentives to horizontal co-operation or build municipal capacity. Finally, the financing structure is not aligned with competence allocation and demonstrates insufficient flexibility to account for the generally higher service demand and cost per capita associated with a metropolitan area as compared with a small urban one, for example.

Competence allocation among Chile's municipalities is homogeneous, i.e. all municipalities, regardless of size, are responsible for delivering the same set of public services. In fact, a high degree of variation in municipal capacity throughout the territory makes uniform service delivery unrealistic and often impossible. The mismatch between the resources available and the competences ascribed in a homogeneous fashion across the territory creates horizontal inequalities in the types, level and quality of services provided, further entrenching spatial segregation among and within urban areas.

Managing administrative and institutional fragmentation

Administrative fragmentation is creating fissures in the administration of functional urban areas, particularly metropolitan ones. Each municipality within a metropolitan area is administered independently, without a mechanism to take into account the over-arching economic and productive unit. Policy and service integration in a functional area is hampered by differences in objectives, capacity and constraints, and precludes the efficiencies and synergies obtained through co-operation and the building of scale. This accentuates the discrepancies in the administrative and financial capacity of municipal authorities, contributing to intra-urban disparities, including social segregation, pockets of higher crime rates and lower educational outcomes. Urban development and management becomes even more of a challenge, especially in a metropolitan context, since administrative fragmentation affects the overall co-ordination and management of urban public services. In addition, it can lead to policy outcomes focused in a specific geographic area with little spill-over effect that can benefit the broader urban community. The impact of administrative fragmentation on public service delivery can be mitigated by promoting horizontal co-operation among local governments. However, Chilean municipalities, like those in many countries, are unaccustomed and/or reluctant to co-operate as a means to build capacity in administration and service delivery, and there are few systemic incentives to do so.

Institutional fragmentation in Chile is typical, and ministries tend to act within their area of expertise without co-ordinating urban policy initiatives or interventions, potentially without adequate consultation on sub-national needs. Co-ordinating urban development efforts among ministries, within a ministry or between a ministry and its regional representative, can be a challenge. The impact of institutional fragmentation at the central level is often played out at the sub-national level, bringing with it responsibility overlap and the risk of a lack of accountability. Chile's institutional fragmentation is compounded by the lack of an overall urban programming system able to guide and to generate complementarities between the different actors in urban development. While administrative fragmentation affects those urban areas comprised of more than one municipality, institutional fragmentation impacts all Chile's sub-national authorities.

Managing a system of this nature requires a high degree of co-ordination. Achieving the integrated approach to urbanism called for by Chile's urbanism actors will require an urban governance architecture that is flexible and adaptable to its heterogeneous urban areas.

Strengthening institutional urban and metropolitan governance models

Meeting Chile's metropolitan and urban challenges in light of administrative and institutional fragmentation calls for a stronger institutional structure at the regional and urban functional level as current "soft" governance mechanisms (e.g. coordinating bodies) alone are insufficient. Chile could pursue a homogenous approach to urban governance, where the same framework is applied throughout the territory, or it could boldly experiment with a heterogeneous approach that may be more appropriate to the diversity of its urban areas and their capacity to realise urban development and management goals. At least three possible types of institutionally based urban governance models are applicable to Chile's urban areas: i) supra-municipal arrangements; ii) inter-municipal arrangements; iii) a reinforced regional framework. These models are not mutually exclusive, and in Chile consideration should be given to an approach that combines these options, e.g. establishing a two-tier model in which the regional governments (*Gobierno Regional/GORE*) are more directly responsible for urban management and development.

This would provide an anchor for the various categories of urban arrangements, including supra-municipal models at the metropolitan level, to help mitigate the impact of fragmentation and joint-inter-municipal bodies in other urban areas as appropriate.

A supra-municipal arrangement could provide an institutional, “whole-of-city” framework for urban development and encourage administrative co-ordination. Recent legislative reforms have introduced an administrative framework and potential financing mechanisms for a metropolitan authority. Such an institution could be the locus of horizontal and vertical co-ordination efforts and reduce the impact of administrative fragmentation. Provided with sufficient autonomy, it would also have a strong chance of mitigating the impact of institutional fragmentation by setting metropolitan area development strategies, prioritising plans and promoting coherence in the implementation of urban initiatives, including service delivery and sectoral policy. Such an arrangement could take the form of a metropolitan authority led by a metropolitan co-ordinating council, for example, or of a metropolitan regional government.

The challenge Chile faces is the application of this framework. It could take a top-down approach to the structure, composition, competences and resource attributions associated with such an institution, or it could take an approach that combines the requirements of legislation with a need for greater flexibility and reflection of local specificity. For example, metropolitan regional councils could be mandated, but their composition, form of election, term limits for council members and competences could be defined in co-operation with the affected municipalities. This would make it easier to ensure that the council and its composition were appropriate to the reality of the specific metropolitan area. In addition, it would probably enjoy greater political legitimacy with local and regional authorities. Greater control or autonomy in financial, fiscal and administrative management will be important for the model’s success. There is evidence that metropolitan institutional structures that can generate own-source revenue and have control over their finances tend to flourish, while those that do not have such capacity do not.

For non-metropolitan areas, a form of inter-municipal joint authority may also be appropriate, particularly in those cities that exhibit metropolitan characteristics and challenges (e.g. Coquimbo/La Serena and Temuco). Joint authorities could help overcome administrative fragmentation where it exists, help manage the impact of institutional fragmentation, and provide a structure for the delivery of public services. Chile’s experience with joint-municipal authorities has not been highly successful to date. Nevertheless, the model should not be discarded. The government may wish to consider re-evaluating the current mechanism of voluntary co-operation for a specific purpose in favour of promoting city-wide, multi-purpose joint authorities.

In addition to building new urban governance structures, reinforcing regional governments would complement action and arrangements at the local level. This could provide an additional mechanism to manage the impact of institutional fragmentation. It could also recalibrate the alignment between FUAs resources and competences and low administrative, financial and infrastructure capacity, including those composed of a single municipality. It could also provide a complementary governance framework for those municipalities that are not yet metropolitan by definition but face the challenges typical of a metropolitan area, regardless of whether they are composite or single authorities. Such a move would require strengthening the institutions, resources and capacity of regional governments and regional authorities.

Overall success will depend on the will and ability of key urban ministries and municipalities to relinquish competences to organising bodies (e.g. a supra-municipal institution or a joint authority or GORE). This will require striking an equilibrium between the urban governance institution's authority and activities, with the authority and activities of central government entities and member municipalities. Ministries will need to adapt their role, transforming it from one that directs and controls to one that guides and co-ordinates. Ensuring municipal support for adjustments to urban governance structures is also critical. Not only should local authorities be consulted on the urban governance framework, but once the framework is established, mechanisms will be necessary to ensure that no municipality is marginalised in the governance process. This is particularly important in functional urban areas where there are wide variations in municipal capacity. Consideration will also need to be given to the constitutional, statutory and regulatory structures to make any change possible, and reflection on current levels of centralisation will be necessary.

Reinforcing strategic planning frameworks and capacity

Urbanism in Chile must be viewed comprehensively, as part of how the country wishes its territory to develop as a whole and the role urban centres play in their regions. Without a coherent strategic framework that can guide the action of the public and private, national and sub-national actors, it will be difficult for any urban governance model to attain even the modest level of integration necessary to support more effective urban policy outcomes. For this reason, urban development and its supporting policy should not be separated from the issue of regional development. These territorial dynamics ought to be considered together in order to develop a coherent vision of Chile's overall territorial development and a long-term strategy to realise such a vision.

Comprehensive strategic planning is currently missing from Chile's approach to urbanism, leaving urban development and planning detached from a broader strategic perspective. At a programming level, because urban activity is project-based rather than strategically driven, it is difficult to determine if national objectives in urbanism are being met. The lack of coherence and solid linkages between the urban development measures taken at different levels of government has left urban priorities siloed. Funding mechanisms are also preventing a more comprehensive and strategic approach. The investment process in Chile follows a sectoral logic, and the various projects comprising an integrated initiative risk being evaluated independently of a master plan. This reinforces a fragmented and staggered approach to project implementation. Finally, low participation by the sub-national level in Chile's urbanism instruments is also an obstacle to a more co-ordinated and comprehensive approach. Taken together, the lack of a territorial and urban vision and national strategy, low financial and fiscal autonomy at the sub-national level, and low participation in sub-national development planning by the relevant actors has held back strategic planning.

Chile is well positioned to revitalise its urban governance architecture. It has the foundations in place to establish a much-needed metropolitan governance framework, as well as mechanisms that can help medium and small urban areas grow in a more integrated and sustained fashion. Ensuring success can take time, may require experimentation and will rest on the central government's capacity to build a partnership with sub-national levels of government. Institutions at the central level, after a history of directing and controlling urbanism, will need to play a new role: guiding and co-ordinating urbanism and urban-oriented policy as a means to ensure an integrated approach to urban development

and management. Success will also depend on the capacity of the sub-national level to meet the challenge of greater autonomy in financial and policy management. Finally, all parties must sharpen their strategic focus, and identify ways to combine successful project-based sectoral initiatives with long-term, cross-sectoral strategic programming. A “whole-of-city” vision for analysing and solving urban challenges could enhance urban development and quality of life outcomes for Chile’s urban residents.

Key recommendations for revitalising Chile’s urban governance architecture

The OECD recommends that Chile reconsider its urban governance architecture with an eye toward an institutionally based, heterogeneous approach appropriate to city size and capacity. Change in this area should mitigate the impact of administrative and institutional fragmentation, build sub-national capacity, and be developed around a strategic vision for urban territorial development and urban form. Detailed recommendations include:

Establish institutionally based metropolitan and other urban governance models

- **Consider a supra-municipal institutional approach for metropolitan areas.** This can take the form of a metropolitan authority, for example, based on existing legislation, or a metropolitan regional government.
 - ❖ Ensure that management bodies (e.g. metropolitan councils) are appropriately representative of the various municipalities forming the metropolitan area and that management responsibilities and competence allocation reflect local specificity.
 - ❖ Ensure that the institution enjoys appropriate levels of financial/fiscal autonomy or control, and that mechanisms are in place to fund long-term development needs. This includes capacity to generate and manage own-source revenue; equitable disbursement of central-level funds; and a financial logic that supports comprehensive programming rather than project-based activities.
- **Consider “city-wide” multi-purpose joint authorities** for metropolitan areas where a supra-municipal approach is not appropriate or desired, and for medium and small urban areas, particularly those facing administrative fragmentation and/or other challenges typical of metropolitan areas.
 - ❖ Reconsider the institutional dimension of municipal associative capacity. Complement existing legislation facilitating voluntary municipal co-operation through associations established for specific purposes with an institutionally driven approach that defines and develops administrative and operational structures, competence allocation (e.g. economic development, land-use planning, culture, social housing and waste management) and financing for multi-purpose joint authorities.
- **Boost the role of regional governments (GORE),** to anchor municipal-level urban governance models and to support the resource constraints of urban areas, especially medium-sized and small ones.
 - ❖ Increase GORE responsibility for urban development and management in their territories, focusing on providing region-wide services that benefit the whole territory, are associated with positive externalities and some redistribution, and that demonstrate economies of scale.
 - ❖ Establish regional-level urban agencies or councils that can help guide urban policy design and implementation, and support urban authorities in managing and meeting their urban competences.

Key recommendations for revitalising Chile's urban governance architecture (cont.)

- **Build institutional legitimacy by complementing a top-down approach with a bottom-up consultative process** in order to build legitimacy with the relevant sub-national authorities (i.e. municipal and regional), civil society organisations, the private sector and citizens.
- **Establish appropriate and mutually agreed-upon mechanisms of inclusiveness** in administrative and financing structures, so that smaller or less well-endowed municipalities are not marginalised. This can include developing mechanisms that prevent wealthy municipalities from blocking or withdrawing from the arrangements.
- **Complement institutional governance structures with “soft-governance” tools** to improve and strengthen horizontal and vertical co-operation among and within levels of government.
 - ❖ Strengthen and/or re-introduce inter-ministerial committees, for example the Inter-ministerial Committee on City and Territory, in order to facilitate cross-sectoral co-operation and promote policy coherence.
 - ❖ Establish city contracts as a complement to existing contract mechanisms: assign clear roles and responsibilities to the different institutions participating in urban development within a precise territory as a means to help improve co-ordination, accountability and measurable results for sector- or cross-sector based policy initiatives.

Build sub-national capacity

- **Build financial/fiscal management and autonomy:**
 - ❖ Enhance own-source revenue-raising capacity at the regional and local levels. Evidence suggesting that metropolitan areas with greater control over their finances tend to be more successful than those areas with less control is likely to hold true for regional and non-metropolitan local authorities as well.
 - ❖ Link sub-national development programming (strategies and plans) to the central-level budget, to facilitate strategic planning and long-term programming capacity.
 - ❖ Establish mechanisms that can facilitate sub-national investment funding, for example through multi-annual budgeting practices; this can also help balance the present project-based approach.
 - ❖ Reform the sub-national tax regime, including property taxes and other taxes, in order to solve the present shortfalls; eliminate unnecessary exemptions and allow flexibility in determining tax rates, update tax bases and impose temporary surcharges for value capture and financing of special projects.
 - ❖ Re-evaluate the allocation mechanisms associated with the National Fund for Regional Development (FNDR), identifying means to ensure that funds for regional development are reaching their intended purpose. This can mean splitting the FNDR into two segments, with one fund strictly dedicated to meeting regional development objectives and the other to assisting municipalities when they face shortfalls. Significantly, however, the system should be reformed so these shortfalls are better managed.
 - ❖ Address horizontal imbalances through formula-based block grants or transfers from the central government that are effectively part of the municipalities' own resources rather than the present earmarked grants.
 - ❖ Improve access of capable municipalities to long-term financing for major urban development programmes and offer incentives for their use. An incremental approach to such mechanisms can be built on the basis of the current credit programme available through SUBDERE, allowing a gradual move to debt acquisition in local markets through banks and bond issues regulated by effective risk- assessment procedures and ratings.

Key recommendations for revitalising Chile's urban governance architecture (cont.)

- **Align resource capacity with competence allocation:**

- ❖ Introduce mechanisms to address the misalignment between resources and ascribed competences at the local level. These can include creating incentives for horizontal co-operation in service delivery; transferring select competences to a higher level of government; creating different categories or “tiers” of municipalities and ascribing competences based on the municipality’s “level”, with smaller authorities having fewer high-budget responsibilities than larger ones.

Build a strategic vision for territorial development that encompasses urban form

- **Develop a long-term strategic vision for urban form.** This should help inform and guide national, sector, regional and local policies and programmes to grow over the next 10, 15 or 25 years.
- **Ensure comprehensive strategic plans for urban matters at all levels of government** to help build urban programming that is strategically directed rather than project-driven by sector.
- **Build capacity through the central level for sub-national strategic planning** by using national-level objectives and criteria as a guide to support regional and local authorities in meeting urban policy objectives and managing challenges such as population growth, housing and pollution.
- **Inform urban policy and programming with broad evidence bases.** Identify consultation mechanisms, possibly on an ongoing basis, to help policy and decision makers identify trends and shifts in urban preferences.



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