Report Number: ICRR14723

IEG **ICR Review**
Independent Evaluation Group

1. Project Data:		Date Posted: 06/29/2015		
Country:	Peru			
Project ID:	P078813		Appraisal	Actual
Project Name:	Regional Transport Infrastructure Decentralization	Project Costs (US$M):	200.00	167.07
L/C Number:		Loan/Credit (US$M):	50.00	41.60
Sector Board:	Transport	Cofinancing (US$M):	50.00	45.97
Cofinanciers:		Board Approval Date:		07/12/2005
		Closing Date:	06/30/2010	06/30/2014
Sector(s):	Rural and Inter-Urban Roads and Highways (70%); Sub-national government administration (25%); Central government administration (5%)			
Theme(s):	Decentralization (23%); Infrastructure services for private sector development (22%); Administrative and civil service reform (22%); Rural services and infrastructure (22%); Public expenditure; financial management and procurement (11%)			

Prepared by:	Reviewed by:	ICR Review Coordinator:	Group:
Ranga Rajan Krishnamani	Christopher David Nelson	Christopher David Nelson	IEGPS1

2. Project Objectives and Components:

a. Objectives:

To improve - through decentralization at the regional level - the prioritization, efficiency, and effectiveness of regional transport interventions so as to contribute to regional development and poverty alleviation by enhancing transport conditions in the Borrower's territory." **Grant Agreement (Schedule 2, page 21) Project Appraisal Document (PAD, page 6).**

b.Were the project objectives/key associated outcome targets revised during implementation?
Yes
If yes, did the Board approve the revised objectives/key associated outcome targets?
Yes
Date of Board Approval: 07/23/2010

c. Components:

There were five components (PAD. pages 7- 9)

Part A; Preparation of participatory regional road planning : Appraisal estimate :US$10.90 million . The ICR does not provide information on project cost at closure. This information was however provided by the Task Team Leader. Actual cost at closure was US$9.43 million. Activities included, preparing/ updating participatory regional road plans that were in alignment with the existing regional development plans and approved either by the regional council or the competent commission of the regional council for each participating region, preparing a diagnosis of the road sector of each participating region, preparing an analysis of the supply and demand for transport services and infrastructure, prioritizing and evaluating road investment options on selected regional road segments, and carrying out feasibility

and technical studies for the rehabilitation of the regional roads that were prioritized through the participatory planning process.

Part B: Upgrading of regional roads: .Appraisal estimate US$138.84 million: According to the information provided by the Task Team Leader, actual cost at closure US$130.2 million. Activities included, rehabilitating about 2,200 km of the regional road segments that were prioritized through the participatory planning process (component A activities) through contracting the road rehabilitation and supervision activities to the private sector, road maintenance activities on 2,706 km of regional roads that had been rehabilitated by another agency of the Ministry of Transport and Communication (Provias Departmental- PVD) and transferred to regional governments.

Part C: Routine Maintenance of Regional Roads: Appraisal estimate US$ US$26.12 million: According to the information provided by the Task Team Leader, actual cost at closure US$13.85 million. Activities included routine road maintenance activities on about 4,900 km of the selected regional road segments that were either rehabilitated or had received periodic maintenance under the previous components, and annual mechanized road maintenance activities performed annually after the rainy season. These routine maintenance activities were to be performed by the private sector (contractors and micro enterprises).

Part D: Institutional Capacity Building : Appraisal estimate US$17.14 million: According to the information provided by the Task Team Leader, actual cost at closure US$5.0 million. This component aimed at providing technical assistance, training and equipment to strengthen the regional governments' institutional capacity. Activities included strengthening the institutional framework of the participating regions regional road management units, supporting a transition from direct administration of road maintenance/rehabilitation to contracting it out to the private sector, safeguard and fiduciary related training activities, assistance for monitoring and evaluation, strengthening the regulatory responsibilities of the regional agencies, and providing technical assistance, training and equipment for the restructuring of the Provias Departmental (PVD).
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Part E; Project Administration: Appraisal estimate US$6.00 million: According to the information provided by the Task Team Leader, actual cost at closure US$8.01 million. The ICR (page 5) reports that the cost for this component was financed exclusively through national counterpart funds. Activities included supporting Provias Departmental- PVD in its day-to-day project management through technical advisory services, audits and financing their operating costs.

The scope of the project activities was revised as follows after a Bank approved project restructuring (discussed in section 2 d).

- The target for rehabilitation of regional roads (Part B component activities) was reduced from 2,200 km to 1,781 km.
- The target for road maintenance activities (Part C component activities) was reduced from 4,900 km to 4,219 km.
- The target value of one project development indicator (percentage of the secondary road network reported to be in good condition at project closure was reduced from 35% to 17%. This change was made due to a combination of factors such as, (i) The reduced physical target for road rehabilitation works from 2, 200 km to 1781 km. (ii) There was a reclassification of the Peruvian road network during the project implementation phase. Following this reclassification, the length of the road network classified as regional roads increased from 14,270 km at project appraisal to 23, 470 Km (ICR, page 2).

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Project Cost: At appraisal the estimated cost (including the baseline cost, costs associated with contingencies and front-end fee) was US$ 200.00 million: Actual cost at completion was US$ 167.07 [ICR, page 27), 83.53% of the appraisal estimate. Although components were not revised, the physical targets were reduced during the project implementation phase, due to the increase in the unit cost for road works that meant less physical investment for the project financing available. This rising unit cost was due to the increase in the price of inputs (such as materials, machinery and qualified labor force), following the construction boom in Peru during the project implementation period (ICR, page 5).

Project Financing: The original approved IBRD loan was US$ 50.00 million, and at closure the IBRD contributed US$ 41.60 million, 83.20% of the appraisal estimate. An amount of US$ 5.47 million of the loan was cancelled at closure (10% of the original loan amount), and US$ 2.93 million was refunded by the implementing agency to the Bank (ICR, page 8). According to the information provided by the task term leader, the implementing agency refunded part of the loan amount because they were unable to carry out the implementation activities as per schedule. Inter-American Development Bank (IDB) co financing commitment at appraisal was estimated at US$ 50.00 million, which was 91.9 percent disbursed at completion when US$ 45.97 million had been paid out.

Borrower Contribution: At appraisal, the Borrower was expected to contribute US$ 100.00 million, and at closure they

contributed US$ 79.5 million, 79.5% of the appraisal estimate. The ICR does not provide reasons for this shortfall in contribution by the Borrower.

Dates: A level two project restructuring was approved by the Bank Management on June 10, 2010 when 19% of the loan had been disbursed. Although the project components were not revised, this restructuring resulted, as already noted, in significant reductions of physical targets, and reallocation of funds between categories to allow for higher loan financing of civil works, the costs of which proved to be higher than expected, due to the increase in the costs of materials, machinery and qualified labor due to the construction boom in Peru. (ICR, page 5).

The project closing date was extended three times through loan amendments. The first extension of 24 months (from June 30, 2010 to June 30, 2012), was provided to address the significant delays associated with project implementation, which in turn led to the very slow disbursement of loan funds (discussed in section 4). Practically no Grant proceedings had been disbursed June 2007, the date of the project's originally planned mid-term review. The second extension of 18 months (from June 30, 2012 to December 31, 2013) was also provided in the face of still slow disbursement. The third extension of six months (from December 31, 2013 to June 30, 2014), was provided for a combination of factors including, completion of the ongoing activities, providing technical training courses, and providing support for the initial preparation activities for a new Sub national Transport Project (ICR, page 5).

The project finally closed on June 30, 2014, As a result of all these extensions, a project originally scheduled for closing within five years, actually took nine years to complete, nearly twice the planned implementation.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

High:

The Government's plan for the 2006-2011 period articulated in the "*National Agreement of International Technical Cooperation"* identified the goals of, developing rural areas through expanding infrastructure services, and continuing with the decentralization reforms, as priorities.. At the appraisal stage, the project development objective was also relevant to the government plan for the 2006-2011 period of pursuing the decentralization agenda. As applied to the road sector, the strategy entailed transferring the management responsibilities of the road sector from the national to the sub national levels of government (such as to the regional and local levels), both through increased budgetary transfers, and through the institutional strengthening of the agencies at those levels.

The project development objective continues to be relevant to the Bank strategy for Peru as articulated in the Country Partnership Strategy (CPS) for 2012-2016 period. The two strategic objectives of the CPS were: (i) "connecting the poor to services and markets" through providing better transport and infrastructure to reduce inequality, and (ii) "improved public sector performance for greater inclusion" through strengthening the sub-national management capacity. At the appraisal stage, the project development objective was relevant to the Country Assistance Strategy (CAS) for the Fiscal years 2003-2006 period, which identified the need for "strengthening sub national management capacity" by promoting decentralization reforms at the regional level (PAD, page 5).

b. Relevance of Design:

Substantial.

For the most part, the linkages between the project activities and their outputs in the project's Results Framework are clear and logical, as are the subsequent linkages to the operation's intended outcome. Part A activities (such as preparing participatory regional road plans and selecting the regional roads on the basis of those plans in each participating region), can be expected to contribute to the prioritization of the regional road network. Part B activities (such as road rehabilitation and periodic maintenance activities by the private sector on the prioritized regional roads that had been transferred to the regional governments) and Part C activities (such as routine road maintenance and annual mechanized road maintenance activities of the selected prioritized regional road segments by micro enterprises), can be expected to improve the condition of the regional road networks. The institutional dimension of the project, Component D activities (such as strengthening the participating regions' regional road management units, supporting a transition from direct administration of road maintenance/rehabilitation to contracting out the maintenance/rehabilitation activities to the private sector, and strengthening the regulatory responsibilities of the regional agencies) can be expected to contribute to the efficiency of regional road transport interventions. The combination of the planned activities in the project design could be expected to contribute to furthering the government's decentralization strategy.

4. Achievement of Objectives (Efficacy):

The project development objective was "to improve - through decentralization at the regional level - the prioritization, efficiency, and effectiveness of regional transport interventions so as to contribute to regional development and poverty alleviation by enhancing transport conditions in the Borrower's territory."

Since the [05/06/2010] restructuring changed the project's key performance targets, IEG and Bank norms require a split rating of performance, as was conducted by the ICR (p. 18) both *before* and *after* restructuring, then estimating the mean of the two ratings weighted by the share of total disbursement made before restructuring (18 percent in this case) and the share of disbursement made afterwards (88 percent in this case].

Ratings:

- ***before restructuring; Modest. After restructuring Substantial .***

Outputs:

- 24 participatory regional road plans were prepared and approved by their respective regional councils matching the revised target of 24 and exceeding the original target of 20 (ICR, page 28).
- 1,562 km of regional roads prioritized through the project's participatory planning process were rehabilitated, as compared to the revised target of 1781 km and original target of 2200 km.
- 3,541 km of the regional roads rehabilitated by *Provias Decentralizada* (PVD) and transferred to regional governments received periodic road maintenance, as compared to the revised target of 2202 km and original target of 2700 km. The targets were exceeded due to the project technical support provided by *Provias Descentralizada* (PVD) to the regional governments.
- 2,570 km of regional roads received routine maintenance according to agreed standards, or 60.9 percent of the revised target of 4,219 and 64.3 percent of the original target of 4,900 km. The ICR (p. 30) notes that during the first six months of 2014, 558 km of the transferred road network to the regions received routine maintenance. The number of km receiving routine maintenance per year varied and fell in 2013 due to reduced budgetary resources (ICR, page 30). On average, each year, 652.9 km of the regional roads received mechanized road maintenance with Micro-enterprises.
- 110 micro enterprises were created by closing, as compared to the revised target of 169 and original target of 180 micro enterprises (ICR, page v). The ICR (page 7) notes that while involving micro enterprises in road maintenance activities had been successful in other Latin American countries, and in Peru itself under two earlier rural road operations, the present project could not easily use them because its rural roads were remote and far away from where low-income laborers who could have worked on them lived.
- Altogether 71 percent of the participating regional governments implemented the reforms agreed in their institutional agreements as targeted. Reforms covered supporting a transition from direct administration of road maintenance/ rehabilitation to contracting it to the private sector.
- A total of 10,654 jobs was created through the works contract at the regional level., 9,687 jobs directly through the works contracts, and 967 through road maintenance operations (ICR, page 16). The project trained 6,938 local officials in financial and operational management, environmental and social safeguards and monitoring and evaluation (ICR, page 31).
- 171 units of equipment were acquired to the regional governments for managing their road assets (ICR, page 31). The ICR does not clearly specify what the units were and also does not provide any targets.

Outcomes:

- The ICR reported that , by project closing, 16% of Peru's (updated) regional road network of 23,740 km was in good condition, against a revised target share of 17% and an original target share of 35%.
- An ex post analysis performed after project closing reported that approximately 1.2 million people benefited from project improvements to the roads. The beneficiary population was defined as those living within 5 km of the project roads (ICR, page 2).
- A beneficiary survey of a small sample of 20 households conducted at the project closure stage in 2014 on six road

segments rehabilitated by the project found that: (1) the rehabilitation had positive effects, since improved access to markets encouraged productive activities; (ii) resulting improved accessibility helped integrate formerly isolated communities and facilitated tourism; (iii) there was little conclusive evidence that the project aided in reducing transport tariffs. Although the size of the sample was small and it is not possible to determine the extent to which the project contributed to the project development outcome, these findings indicate that the project played a critical role in the decentralization efforts to improve the prioritization and effectiveness of regional transport interventions.

5. Efficiency:

Modest.

An economic cost benefit analysis was conducted at completion for the road component (rehabilitation and maintenance of regional roads), using the Road Economic Decision (RED) model developed by the World Bank. The components evaluated represented approximately 20% of the total project costs. The analysis was performed in one of two ways depending on the level of traffic on the roads. For roads with traffic volume above 50 vehicles per day, a full cost benefit analysis was conducted, where benefits came from savings in vehicle operating costs, travel time, and in reduced accidents. The ex post economic rate of return (ERR) was 19 percent , somewhat below the appraisal ERR of 25 percent, estimated on the same basis.

A Cost Efficiency Analysis (CEA) was conducted for the rehabilitation of low traffic volume roads (with traffic volume below 50 vehicles per day). The primary justification for these roads came from social considerations (such as providing accessibility to people from isolated communities). The methodology for the study entailed calculating the total investment costs per beneficiary. The ICR (page 38) reports that for roads with traffic volume below 50 vehicles a day, the costs at closure exceeded $100 per beneficiary According to the (PAD 89), a low volume road should cost no more than $100 per beneficiary to be considered feasible.

There were significant administrative and operational inefficiencies which contributed to major implementation delays. In particular, the management of procurement (discussed in section 11) and disbursements remained slow. Project effectiveness took place nine months after board approval, due to internal discussions within the Peruvian administration about how to secure counterpart funding from regional governments (ICR, page 7-8). By the Mid-Tern Review, only 11% of the loan had been disbursed. And by the time of the second extension of the loan closing date in 2012, less than half of the loan funds (48%) had been disbursed. Despite the three extensions to the closing date, the loan was still not fully disbursed and some works were still not completed at the final closing. In spite of that, the project had delivered upon most of its physical targets, but fell short of in implementing its institutional strengthening activities..

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	Yes	25%	19.05%
ICR estimate	Yes	19%	20.74%

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

Relevance of the project development objective to both Borrower and Bank strategies for Peru was High and relevance of Design was Substantial. Efficacy in achieving the objective was Modest before restructuring when 19% of the loan had been disbursed and Substantial after restructuring when 89% had been disbursed. Most of the revised targets had been achieved after restructuring, and although it is difficult to determine the extent, it is clear that the project contributed to the decentralization efforts and to improve the prioritization and effectiveness of regional transport interventions. However, although ERRs showed parts of the project investment to be feasible, efficiency was rated Modest, being undermined by implementation delays that almost doubled the timescale of the project's execution from five to nine years. The overall outcome rating was Moderately Satisfactory.

a. Outcome Rating: Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The ICR (page 8) reports that the regional government's budgetary allocations for road maintenance activities had increased during the project implementation period, due to a combination of factors, including Peru's improved fiscal and financial situation due to the commodity price boom and royalties from mining companies. However, it provides no information on how much approximately will be required to continue these maintenance activities into the future. Given this, it is not clear if the budgetary allocations would remain sufficient in periods of stringent budgetary conditions ahead. The risk is made greater by the absence of any binding legal framework for national budgetary transfers to the regional governments. As a result of this, sub national governments in Peru will have to continue these transfers annual, without any assurance of outcomes year by year (ICR, page 21). .

a. Risk to Development Outcome Rating : Significant

8. Assessment of Bank Performance:

a. Quality at entry:

Preparation of this project built upon the experience from two successful projects rural roads projects in Peru (Peru: Rural Roads Project 2001-2006 (P0095570 and Peru: 2nd Rural Roads Project 2006-2013 (P0044601) (ICR, page 1). As with the prior Bank financed rural roads projects, this project was designed and implemented as a joint operation with co-financing from the Inter-American Development Bank (IDB) (ICR, page 2). Collaboration with the IDB had been successful in the past.

Risks directly associated with the project were identified, including a substantial risk related to the insufficient capacity on the part of regional governments to assume road management responsibilities. This risk was mitigated by a design that provided training by the implementing agency to the regional governments (ICR, page 7).

However, the ICR recognized shortcomings to quality at entry. The project development objective was "optimistic and ambitious" for a project of this size. The project design attempted to replicate the successful experience of the Bank with the earlier rural roads projects, in the context of regional roads within a short period of time, The method entailed the central government initially rehabilitating the roads, and then transferring the responsibility for road maintenance activities to the local government. The ICR (page 7) notes that, while the rural roads projects were implemented by the central government and then transferred to the local governments after 10 years in line with the decentralization strategy, this project expected the successful and rapid implementation of the civil works in a decentralized manner within five years, and with regional governments who were unfamiliar with the Bank's requirements (ICR, page 7).

The choices offered by the project, both in terms of the type of road works interventions (paved or unpaved roads), and the mode of incorporating the private sector (through the micro enterprises), were not the preferred options of the regions (ICR, page 7). The design at the Quality of Entry stage, envisaged gravel standards (unpaved roads) for road rehabilitation works, since the paved option was deemed to be not economically viable since they were low traffic volume roads. The Ministry of Transport and Communication, on the other hand, was more in favor of the paved roads option, and many regional governments which had access to budgetary resources as a result of the fiscal transfers, also wanted the option of paved roads. And, the regional governments were not keen to adopt micro enterprises for routine road maintenance activities, for reasons that became apparent through implementation difficulties. Yet the project offered top-down solutions without allowing for the possibility to tailor different schemes (such as lower cost paving or surface sealing options, instead of gravel (ICR, page 7).

There were important weakness in M&E design (discussed in section 10a below).

Quality-at-Entry Rating: Moderately Unsatisfactory

b. Quality of supervision:

There were 17 missions, two a year throughout implementation. The ICR (page 22) notes that the project was supervised jointly by the Bank, the IDB, the implementing agency and the Ministry of Finance. The supervision team coordinated the financing of this project with competing government programs. The Borrower's ICR (page 64) notes that constant dialogue between the Bank and the implementing agency aided in the implementation of the project, and the supervision missions working meetings with PROBIAS was not just confined to writing and evaluation, but also putting in proposals for correcting problems and providing solutions for the issues that arose

during the implementation phase..

Although the institutional dimension of the project was an important component of the project, the institutional strengthening activities were launched only at the project closure stage. (ICR, page 9).

The ICR (page 23) reports that the supervision team could have more actively pursued loan cancellation as it became increasingly evident that the project would have difficulty in disbursing the full amount of the loan given the delays associated with initiating works.

Quality of Supervision Rating :	Moderately Satisfactory
Overall Bank Performance Rating :	Moderately Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

The government provided strong support to the project, since the transport sector was identified as one of the priority sectors for advancing its decentralization strategy (ICR, page 6). The Ministry of Transport and Communication, the Ministry of Finance, and the representatives of the Council of Ministers were actively involved with the project through the execution phase. The regional governments also remained totally committed to the project, The commitment of the national government and the regional governments was evidenced by the following: The works contracts that went beyond the eligibility period (June 2014) were completed with local resources (ICR page 6). The government's commitment was also demonstrated in their making constant efforts to train regional counterparts who suffered high levels of rotation (ICR, page 22).

A problem faced during the project execution phase was due to the lack of technical staff at the regional level, and the staff's unfamiliarity with the Bank requirements. Although the supervision team proposed alternative solutions to support the regional staff through contracting consultants, the government seemed to be reluctant to spend loan funds on consultants to directly support each regional government to advance the project (ICR, page 9).

The ICR (page 23) notes that the government, along with the Bank, could have been more proactive in exploring options to exit. For instance, after mid term, there was a suggestion to explore the possibility of financing low cost paving options and scaling up the effort. Although a pilot was carried out at government expense for exploring low cost options, it could not be replicated, since the pilot was carried out during the final months of project implementation, and these was not enough time for processing new contracts with new technologies.

Government Performance Rating	Moderately Satisfactory

b. Implementing Agency Performance:

The project was implemented by the Provias Departmental, under the Ministry of Transport and Communication. The agency had already experience with implementing the prior rural roads projects financed by the Bank and the Inter American Development Bank (ICR, page 10). The ICR (page 23) reports that the agency was successful in providing training to successive sets of new governments by providing detailed project progress reports in a timely fashion, and complying with fiduciary reporting requirements.

The implementing agency, however, paid very little attention in the initial years to the institutional aspects of the project. and it was only in the last six months, the implementing agency started providing capacity building, with technical courses. Further, there was no technical training provided to regional governments (such as for example on road safety, on road asset management techniques, and on road maintenance). Only during the last six months of project of implementation, did the implementing agency started provided training to regional governments on aspects such as road safety, road asset management techniques and road maintenance.

In addition to the changes due to the elections, there ware high rotation of technical staff both at the PVD and the regional governments and this caused delays in project implementation.

Implementing Agency Performance Rating :	Moderately Satisfactory

Overall Borrower Performance Rating : Moderately Satisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

There were two outcome indicators. (1) The improvement in the quality of the regional road network. (2) A reduction in transport tariffs. While the former indicator was readily measurable and reliable, the latter indicator was not explicitly described, but nevertheless lacked a direct relationship to the project actions. Beyond the conceptual problems, it could not in practice be easily measured in view of the wide geographical dispersion of the operation's sub-projects.

Although the institutional dimension of the project was an important component of the project, the ICR (page 10) reports that the indicator for measuring progress on the institutional dimension of the project, "the percentage of institutional agreements that were successfully implemented.", did not serve to measure institutional development in a manner that would enhance the prioritization, efficiency and effectiveness of regional transport interventions as intended by the project's objective. (ICR, page 10).

b. M&E Implementation:

There was regular monitoring and reporting of project progress, including adequate covering of fiduciary and safeguards aspects due to regular technical assistance and training provided to regional governments. Monitoring was through available data which was regularly being collected.

Although some other M&E techniques were proposed in the PAD (such as participatory evaluation exercises, impact assessment studies by independent firms and specialized Non Governmental Organizations (NGOs) and participatory events involving high level representatives from regional governments), they did not materialize. The ICR (page 11) reports that the PAD intended M&E system was only marginally implemented.

c. M&E Utilization:

The ICR (page 11) provides little information on M&E utilization..

M&E Quality Rating: Modest

11. Other Issues

a. Safeguards:

The project was categorized as "environmental category B", meaning that partial assessment was required. In addition to environmental assessment (OP 4.01), the following safeguard policies were also triggered by the project. Cultural Property OPN 11.03), Involuntary Resettlement (OP 4.12) and Indigenous Peoples (OP 4.10). The project complied fully with the Bank's safeguard policies at appraisal (PAD, page 22). An environmental assessment, a Resettlement Plan and an Indigenous plan was prepared and publicly disclosed (PAD, pages 98-99). The ICR (page 11) notes that the project did not involve major negative social and environmental impacts as it entailed only rehabilitation and maintenance on existing road assets along existing rights of way. However, the regional governments were not familiar with Bank safeguard procedures. There were delays in the hiring of additional staff social and environmental consultants by the implementing agency, and as a result safeguards aspects were not adequately covered for a for a large portion of the project (ICR, page 11).

b. Fiduciary Compliance:

Financial Management:

The ICR (page 11) reports that the regional governments had varying levels of capacity and this in conjunction with

the high rates of staff turnover and hence financial management proved to be challenging. However, close support from the Bank, including the establishment of standardized processes and procedures helped in financial management and audits were carried out regularly.. The task team leader clarified that the audits were not qualified. ..

Procurement:

The ICR (page 10) reports that there were seven ex post procurement reviews performed by the Bank between November 2007 and March 2014. They helped raise several procurement issues that contributed to the slow implementation of the project. These included: (i) limited participation of consultant firms and individual consultants due to the excessive requirements of eligibility; (ii) high rotation of regional government staff who participated in the procurement process; (iii) many bidding process were declared non responsive, either because the lowest evaluated bid exceeded the Borrower's budget ceiling, or no one bidder met the specified qualification criteria (requiring a rerun of the bidding at extra cost and time) (ICR, page 9).

The ICR (page 12) also reported issues arising from misinterpretations of the Bank's procurement guidelines, such as (such as the provision in the Operations Manual (OM) of the project which allowed the implementing agency to reject bids because or mistakes or omissions that could be clarified by the bidder). During the last three years of project implementation, there were concerns over the submission of possibly fraudulent documentation relating to bids for two road rehabilitation contracts. Subsequent investigations substantiated both allegations of fraudulent practices, and the project team took measures to address the issues, including through enhanced procurement supervision and due diligence checks. Following this, the ICR (page 12) reports that the project team tightened its supervision of procurement.

c. Unintended Impacts (positive or negative):

None

d. Other:

None

12. Ratings:	ICR	IEG Review	Reason for Disagreement/Comments
Outcome:	Moderately Satisfactory	Moderately Satisfactory	
Risk to Development Outcome:	Significant	Significant	
Bank Performance:	Moderately Satisfactory	Moderately Satisfactory	
Borrower Performance:	Moderately Satisfactory	Moderately Satisfactory	
Quality of ICR:		Satisfactory	

NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

The ICR (page 24-26) draws the following main lessons from this project.

•At the design stage, it is necessary to ensure the involvement of all stakeholders in the participatory planning process. Their participation was required in this project for identifying the priority regional roads to rehabilitate. To ensure that their participation is not precluded by their own financial constraints, project design could include mechanisms for funding the mobilization and participation of stakeholders in the participatory planning process.

•A program with an overtly rigid and prescriptive solutions (such as for road interventions) may not necessarily be appropriate for diverse and geographically extensive countries, such as Peru. In such cases, it would be more useful to demonstrate first through a pilot operation, and then scaling up if the pilot operation is deemed to be successful. Such an approach may be particularly useful, when new mechanisms or modalities (such as decentralized implementation in the case of this project) are attempted.

•..The experience with this operation demonstrated that for projects with an institutional dimension, its detailed features need to be clear at the outset. Thus it would be useful, at the design stage, to have explicit milestones that could be feasibly be achieved within the project duration.

•A range of approaches and solutions, for projects involving a large number of sub national governments, may be useful for securing greater ownership of the project by entities with views and needs that may differ from those of the national authority.

• It could be more useful to use the country systems that are in place and strengthening those systems for the implementation of development projects, in decentralized contexts. In the case of this project, the high rotation experienced in the project necessitated re- training and this in turn led to implementation delays.

14. Assessment Recommended? ○ Yes ● No

15. Comments on Quality of ICR:

The ICR is well written and provides a candid description of the problems associated with the decentralization agenda. The assumptions behind the economic analysis is explained well.

The ICR description of the assessment of outcome is however somewhat confusing and the description of the M&E is quite sparse.

A major shortcoming of the ICR is that it does not properly record the actual costs of the project. Instead of taking into account all elements of project and component costs, namely Bank funding, cofinancing and Borrower counterpart financing, the ICR reports only of the Bank funding part which may account for no more than a quarter of total costs. This information was however provided by the Task Team Leader..

There are other minor shortcomings to the ICR. The ICR rates the risk to development outcome as "significant", rather than "Substantial". Significant is not a recognized IEG rating. The Borrower ICR is a valuable attachment to the ICR, but it would have had more widespread use had it been translated into English. The ICR's list of project components does not use the same titles for all of them as per the project design at appraisal, so that some components have a substantively different title in the ICR from that in the PAD.

a.Quality of ICR Rating : Satisfactory