PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB827

Project Name	Regional Transport Infrastructure Decent
Region	LATIN AMERICA AND CARIBBEAN
Sector	Roads and highways (50%);General public administration sector (30%);General transportation sector (20%)
Project ID	P078813
Borrower(s)	GOVERNMENT OF PERU
Implementing Agency	
	Government of Peru Peru
	PROVIAS Departamental Peru
Environment Category	[ ] A [X] B [ ] C [ ] FI [ ] TBD (to be determined)
Safeguard Classification	[ ] S_1 [X] S_2 [ ] S_3 [ ] S_F [ ] TBD (to be determined)
Date PID Prepared	April 7, 2004
Estimated Date of Appraisal Authorization	March 1, 2005
Estimated Date of Board Approval	May 24, 2005

1. Key development issues and rationale for Bank involvement

Three key regional transport issues must be highlighted:

- **In Peru, the low availability and poor quality of transport infrastructure has constrained mobility and been a bottleneck to broad-based economic growth.** For the last three years, Peru has experienced a reasonable growth of overall economic indicators (stemming however from the growth of a few specific industries) but a low performance in terms of poverty reduction (in fact, the poverty rate increased from 1997 to 2001 when it reached a level of 54.8%). The road density (2.9 km per 1,000 people or 0.06 km per km^2) is among the lowest in South America. Only 13% of the network is paved, a low proportion given the country's level of development. These figures along with the relatively poor condition of road infrastructure are reasons behind high logistic costs and, thus, reduced competitiveness. According to the 2002 Global Competitiveness Report, firms rank Peru 54 out of 75 countries (10 out of 17 in Latin America) for road quality. In rural Peru where poverty is the most acute, lack of access to infrastructure services and physical isolation means lack of access to economic opportunities and to social services. In spite of a major effort in upgrading the condition of rural roads, a 2000 household survey showed that less than 3 out of 10 households living in rural areas have access to a road in good condition and about 1 on 8 have access to a paved road.

  In this context, regional roads are key in promoting rural-urban linkages and connecting secondary cities. The regional road network (about 14,300 km, of which 8% is paved and less than 3,000 km are considered in good or regular shape) constitute the connection between and across the rural road network (47,000 km) and the national roads (17,000 km). As such, it plays a critical role to develop regional markets and to link small and mid-size cities to larger economic centers. While Peru's rural population remains high (200 people per km^2, higher than in Bolivia and twice as much as is Guyana, Paraguay or Venezuela), strengthening rural/urban linkages is critical to develop local economies or—where economic potential is too low—to encourage mobility to areas offering greater opportunities.

- **Regional management capacity requires strengthening to further the on-going decentralization process, while the central government unit is overhauled.** The disappearance of the former deconcentrated regional entities (the CTARs) and the transfer of the management of the regional road networks from the central

Ministry of Transport and Communications (MTC) to the Regional Governments has led to a confused institutional framework. Currently, responsibilities on transport matters—regulation, traffic safety, road asset management—at the regional level are split between the (smaller) Regional Infrastructure Management Units (RIMUs) and the (larger) Regional Road Directorates (RRDs), with the latter often still reporting and functioning as a dependent unit of the MTC[1]. At the same time, MTC's *Provias Departamental* (PVD) continues undertaking activities—largely by force account—on the regional road network (with about 2,400 workers and 500 pieces of heavy equipment—of which only half are operational). The transfer of responsibilities to regional governments offers a unique opportunity to re-think the force account approach and rationalize road management activities.

In the short term, a major effort must be carried out to rethink the management of the sector, while building on existing successful experiences from the rural roads program (see Box 1) and the modernization reforms being pursued by the central government. In particular, the experience of the Provincial Road Institutes at the municipal level could be valuable when redesigning the organization of the regional units (RIMUs and RRDs) and, therefore, coordination should be sought between these initiatives. The regional governments have moved forward with the elaboration of participatory regional road plans, but still need to organize the administration and implementation process for the smooth execution of those plans. The PVD faces the parallel challenge of retrenching its staff and operations.

Box 1. Decentralization of Rural Roads Management

Since 2001, the management of an increased proportion of rural roads has been transferred to provincial municipalities in parallel with an institutional strengthening program (creation of the so-called Provincial Road Institutes). This experience has shown that local governments can successfully take over the management of road networks, provided that it is done gradually, while ensuring sustainability, with due attention being paid to institutional and financial capacity. It has also shown that community-based schemes for road maintenance, involving the creation of micro-enterprises, can increase the developmental impact of the project through reinforcing the local entrepreneurial capacity, while providing simultaneously an efficient mechanism for road maintenance.

- **Previous use and levels of centrally-managed expenditures for regional roads have been insufficient to bring and sustain the transport infrastructure at an adequate condition for economic and social development.** Budget resources for MTC's PVD for 2004 amount to S./ 177 million (about US$ 50 million), of which about S./ 21 million (US$ 6 million) are allocated to road maintenance (similar amounts to those spent in 2003). Regional Government's 2004 budget for transport (including other modes in addition to roads) amounts to US$40 million. Given the average costs observed for road rehabilitation (about US$ 80,000 per km) and maintenance (about US$ 1,000 per km per year), current resources—even if entirely approved and executed—appear insufficient to rehabilitate the core of the regional roads in bad condition and properly maintain the regional road network. While ensuring that regional roads' management will be transferred to regional governments along with the corresponding budgetary resources currently managed centrally, the new decentralized context requires a strategy to increase the efficiency in the use of the resources and, commensurably with each region's capacity, the amount those resources.

[1] Due to the recent creation of the regional governments, similar duplication of responsibilities between the new decentralized institutions and the old deconcentrated ones may well exist for other sectors.

To confront these issues, the government is very interested in finding new approaches to transport management at the regional level. For this purpose, the Government has established the Multisector Commission, consisting of representatives of institutions competent either in transport or in decentralization policies (including the Ministry of Economy and Finance (MEF), the National Commission of Decentralization (CND), the Ministry of Transport and Communications (MTC), and the current entity in charge of regional roads (the PVD)), and the delineation in a coordinated fashion of the action plan to transition away from the centralized approach to regional road management and investment decision-making. The MEF, the CND and the MTC see the Bank (in partnership with the IDB) as a source of analytical knowledge to contribute at the sectoral level with the reform process and to further increase regional government managerial and technical capacity in the road sector. As an independent external financier with a reputation for insisting on sound asset management, the Bank in partnership with the IDB can help introduce sound management practices on the regional road network. In this endeavor, the government also sees the Bank as a third party that can bring together the key actors at the national and regional levels. In this effort, as building in the successful experience of the Rural Roads Program and Lima Transport Project, the Government has requested a joint operation with the IDB.

2. Proposed objective(s)

The project development objective is to improve—through decentralization at the regional level—the prioritization, efficiency and effectiveness of regional transport interventions and, hence, their contribution to local development and poverty reduction in Peru. These features refer to:

- prioritization: better aligning transport investments to local needs as identified by participatory regional development plans and appropriate planning and evaluation tools;
- efficiency: strengthening the institutional framework in order to achieve the appropriate management of transport interventions at the regional level, with due consideration to environmental and social issues, including issues related to the Indigenous Peoples of Peru; and
- effectiveness: upgrading the quality of regional transport infrastructures and developing sustainable maintenance mechanisms.

The project's design would take place in the context of the decentralization agenda in Peru. In this respect, one of the key policy reforms to be pursued is the establishment of institutional frameworks in the participating regions to make a clearer link between investment and maintenance interventions and the related resource needs, encouraging incentives through the contributions from the central level (including those from the project) towards better resource mobilization and appropriate road asset management practices.

3. Preliminary description

The project will include the following four components, each moving at different levels depending on the participating region:

Component 1 : Through participatory planning, the identification of regional road segments which are critical to regional development (estimated cost US$5 million of which US$2 million would be financed by the Bank Loan). This component would finance the preparation of participatory regional road plans—aligned with the existing regional development plans—and elaborate a diagnosis of the sector in a particular region, analyze the supply and demand for transport services and infrastructure, and prioritize and evaluate road investment options, towards identifying the sub-project priorities that could be funded under the project. A prioritizing methodology, including a combination of both economic potential and poverty level criteria, would be elaborated as part of project preparation, with due attention to environmental and social issues. This methodology will build on other current experiences in the country (e.g., Peru Rural Roads or Pronasar) and proven modeling instruments (such as HDM-4 and RED).

Component 2 : Improving mobility through the rehabilitation of about 3,000 km of regional roads (estimated cost US$160 million of which US$40 million would be financed by the Bank

Loan). Regional governments would contract private enterprises to perform the rehabilitation works and engineering consultants to carry out the relevant supervision, with the technical support and oversight of the PVD. None of the works to be undertaken under this component will require resettlement or imply major impacts to the natural environment. Share of World Bank financing in this component (25%) could have been higher if the total loan amount were not constrained by current debt ceilings in the transport sector.

Component 3 : Improving the efficiency and effectiveness of road maintenance through scaling-up the micro-enterprise maintenance mechanism (estimated cost US$15 million of which US$3 million would be financed by the Bank Loan). This component would finance the maintenance of the 3,000 km of roads rehabilitated under component 1, plus 2,500 km of regional roads transferred from the Rural Roads Program. Building on the successful experience of the Rural Roads projects I and II, maintenance would be performed by mechanisms similar to the micro-enterprise model. Particular attention will be paid to ensuring the sustainability of the model (i.e., that sufficient funding is dedicated by regional governments to maintenance and that micro-enterprises are contracted to perform such maintenance). This activities will follow environmentally sensitive approaches, following current practices in Peru and other Latin American countries.

Component 4 : Strengthening the decentralization process and ensuring the sustainability of the project through institutional capacity building (estimated cost US$20 million of which US$5 million would be financed by the Bank Loan). One of the project's major challenge is to put in place a robust and agile institutional framework allowing regional governments to plan, manage and implement transport interventions in an efficient and sustainable manner. This component—to be managed centrally by PVD—is aiming at providing the technical assistance needed to upgrade regional governments' institutional capacity and will be built upon a comprehensive institutional assessment to be performed during project preparation. Critical issues include: (a) the merging between the RDDs (formerly with the Ministry of Transportation and Communication) and the RIMUs, newly-created as part of the organizational structure of the regional governments; (b) managing a transition from direct administration of road maintenance/rehabilitation to contracting it to the private sector; (c) clarification and assignment of responsibilities over the regulation of transport services and road safety; and (d) timetable of actions for the restructuring of the PVD. This component will also strengthen the capacity of regional governments in the management of environmental and social issues. Finally, this component will finance the project's administration and implementation' monitoring and evaluation system. Indicators to be used will focus on outputs (roads rehabilitated and properly maintained, contracting to the private sector), outcomes (mobility and regional institutional capacity), and impacts (local development and poverty reduction).

Given the particular focus of the project on strengthening the decentralization process in Peru, the importance of institutional reforms is emphasized in all components. Institutional issues are particularly critical in component 1 (participatory planning), component 3 (transition from "in-house" maintenance to contracting micro-enterprises) and component 4 (capacity building, particularly on environmental and social management).

Regarding environmental safeguards, it is proposed that a strategic environmental evaluation be performed during project preparation. This approach will allow to implement an adequate framework for environmental management from the earliest stages of the project cycle, in coordination with national environmental entities (the CONAM and the socio-environmental unit of the Ministry of Transport), and will be an efficient option to addressing environmental issues for each road segment rehabilitated under the project.

4. Safeguard policies that might apply

Applicable?	**Safeguard Policy** If Applicable, How Might It Apply?
[X]	**Environmental Assessment (OP/BP 4.01)** **The Program does not foreseen significant environmental impacts that could jeopardize the natural environment of its influential area. Therefore has anticipate temporal and directs**

	impact that will be prevent, mitigate and compensate the environmental impacts, to ensure the environmental sustainability of the Program. In this sense will be necessary to include the Environmental Assessment Policy to define the environmental studies to be required in this preparation phase.
[X]	**Indigenous Peoples (OD 4.20)** **Because this a national project subject to the demand of the regions, we do not know where the project will be implemented and therefore cannot anticipate if Indigenous Peoples will be affected by project activities. An Indigenous Peoples Development Framework will be prepared during project preparation to address potential impacts on Indigenous Peoples.**
[X]	**Cultural Property (draft OP 4.11 - OPN 11.03)** **Chance Find Procedures will be included in the EMP.**

5. Tentative financing

Source:		($m.)
BORROWER		100
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT		50
INTER-AMERICAN DEVELOPMENT BANK		50
	Total	200

6. Contact points

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