PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: AB1515

Project Name	Regional Transport Infrastructure Decentralization
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	PROVIAS Departamental Ministry of Transport and Communications Av. Bolivia 120 – Torre de Lima 12o Piso – Lima 1 Peru Tel.: 51-1-332-5112
Environment Category	[ ] A [X] B [ ] C [ ] FI [ ] TBD (to be determined)
Date PID Prepared	March 31, 2005
Date of Appraisal Authorization	April 18, 2005
Date of Board Approval	June 28, 2005

1. Country and Sector Background

The Peruvian decentralization reforms -

For the last three years, the Government of Peru (GoP) has brought forward an ambitious decentralization agenda, with the effective transfer of responsibilities at both the regional and local levels, along with an increase in budgetary resources and in institutional capacity. Since 2002, major laws—the "*Ley de Bases de la Descentralización*" and the "*Ley Orgánica de los Gobiernos Regionales*" are two of the most salient—have been enacted. At the regional level, regional authorities have been elected through democratic suffrage, consolidating a "three tier" governmental structure with the municipalities (called districts in rural areas and provinces in urban areas) at the local level, the regions at the regional level and the central government. Through decentralization at the regional level, the GoP aims more particularly at strengthening the competitiveness of Peru's regions (see Box). Accordingly, an increasing amount of responsibilities have been transferred to regional governments and municipalities. The health and the road sectors have received particular attention from the Peruvian Government to implement its decentralization agenda, although other social and infrastructures sectors (water/sanitation, electricity) are also high in this agenda. The choice of roads is justified by significant international evidence showing that roads constitute one of the sectors where the benefits of decentralization are the most obvious in the short term (with, therefore, possible demonstrative effects).

In parallel to the political decentralization process, progress has also been achieved in the area of fiscal decentralization. Transfers to regional governments increased dramatically in 2003, amounting to about 14% of overall public expenditures that same year. They increased to 16% of overall public expenditures in the executed budget for 2004 and they remain stable at that level, with about US$2.2 billion, in the approved budget for 2005. However, about two thirds of these resources are tied to the payment of public employees and related social obligations, reducing significantly the capacity of the regions to invest in capital expenditures: resources for capital investment only amounted to US$131 million in 2003 though they have been raised to US$249 million in the 2005 budget. About a quarter of these capital expenditures (US$32 million in 2003) was spent in road investments (rehabilitation or improvement).

Box: Decentralization and the competitiveness of the Peruvian regions

The ultimate goal of regional governments is the sustainable development of the regions through the promotion of public and private investments, as well as job creations; and ensuring full rights and access to equal opportunities for regional populations, in agreement with national , regional and local development plans (art. 4).

The objective of each regional government is to ensure a strategic management of the region's competitiveness. To this end, regional governments promote innovation and partnerships between the public and the private sectors; they encourage cooperation initiatives between firms, social institutions and organizations, as well as the development of productive activities; and they facilitate the emergence of opportunities to create economic development corridors, market expansion and exports (art. 8).

Source: Regional Governments Basic Law (*Ley organica de gobiernos regionales*), 2002.

Positive results have already been obtained with a better participation of local and regional stakeholders in the management of larger share of public resources. This participation is particularly formalized through the preparation of participatory plans and budgets. Within its decentralization agenda, the Government's strategy seeks to instill the appropriate participatory approach for the selection of public investment at the local and regional level. A planning process involves local and regional stakeholders in the definition of a development strategy which is then used to prioritize among possible alternatives for public investment. Participatory Regional Development Plans (PCDRs) and their equivalent for the local level are detailing these strategies. In the PCDRs, infrastructure projects-and in particular roads- are seen as mechanisms for increasing the opportunities of the various regions to advance their competitiveness and integrate markets across neighboring departments. To date, the entirety of the 26 PCDRs are elaborated and approved—though not all of them are of the same quality and scope.

However, while the legal framework is now largely in place, significant institutional and fiscal challenges still need to be addressed. The decentralization laws that have been passed since 2002, have clarified the respective responsibilities of the various levels of government. Nevertheless, the institutional and budgetary consequences have not been fully drawn yet: a significant part of the budgetary transfer to local or regional governments remain tied to commitments decided by the central governments (salaries in particular), some central agencies still intervene directly in sectors that are now the responsibility of regional governments, and, in many sectors like regional roads, education or agriculture, the old deconcentrated public agencies are not yet fully integrated in the organization of the corresponding sub-national government (although the decentralization laws give them that authority). Institutional restructuring and a comprehensive capacity building program are therefore needed at all levels of government in order for the decentralization process to bring its full benefits in terms of efficiency and effectiveness.

Decentralization in the road sector –

Peru presents a major "road gap": the low availability and poor quality of transport infrastructure is constraining mobility, increasing logistic costs and ultimately constitutes a bottleneck to competitiveness and broad-based economic growth. The road density (2.9 km per 1,000 people or 0.06 km per km^2) is among the lowest in South America and, 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. Major funding is required to bring the Peruvian transport infrastructure to the level of regional and income comparator countries. Capital investments required to restore Peru's road network, at all levels, to conditions aligned with traffic levels have been estimated at around US$4.2 billion. [1]

The regional road network (about 14,300 km, of which 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. Capital investments required to restore Peru's regional road network to conditions aligned with traffic levels have been estimated at US$1.3 billion, with about 80% of the network needing rehabilitation or improvement. In addition, current needs for regional roads' maintenance amount to US$31 million annually but they could reach US$60 million if the entire secondary network were rehabilitated. In comparison, existing resources to improve and maintain regional roads amount to about US$85 million for capital expenditures and US$8 million for maintenance.

Table: Peru's road network and levels of government responsible for its management.

Road network	Corresponding roads	Length (km)	Levels of government in charge
primary	National roads	16,980	Central Government (MTC)
secondary	Regional roads (*departamentales* in Spanish)	14,250	24 Regional Governments
tertiary	Rural roads (*caminos rurales* in Spanish)	46,970	Municipalities (1,812 districts and 194 provinces)

Source: MTC (2004).

The decentralization reforms are already well advanced for rural roads whose management is now successfully handled at the provincial level in at least 12 *departamentos.* Since 2002, major progress have been achieved in the 12 poorest Peruvian *departamentos* in terms of building capacity for an efficient management at the provincial level[2] of the rural road

[1] *Sources:* Guerra-García, G. (2000) – *Hacia una Politica de Financiamento para el Sector Transportes en Peru*, Mimeo prepared for the Inter-American Development Bank (IDB); and Banco Central de Peru (2004) – *Desarrollo de la Infraestructura de Transporte con Utilización Intensive de Mano de Obra*, study directed by Mr. Silva Ruete, published by the Peru World Bank Office.

[2] Peru counts with 194 provinces (provincial municipalities, mostly urban) and 1,812 districts (district municipalities, mostly rural). In each province, there are several districts but the provincial mayor has no authority over district mayors.

network. The on-going Second Rural Road Program has helped to build a sustainable institutional capacity at the provincial level, with the creation of an increasing number of Provincial Road Institutes (38 PRIs had been created as of March 2005). These fully decentralized entities are placed, in each province, under the authority of a “Board” (whose members are the mayors of the provincial and district municipalities) and are responsible for the maintenance of the rural roads rehabilitated with the support of the central government (through its agency Provias Rural). Routine maintenance is performed by micro-enterprises, allowing to create an entrepreneurial capacity among poor rural communities. After two years of experience (the first pilot was created in Arequipa), the PRIs have proved to constitute a sustainable institutional framework, ensuring both true ownership and accountability at the local level, and an effective and efficient management of rural road infrastructures.

In the short term, a major challenge will be to strengthen the capacity of the regions to efficiently manage the secondary road network, while building on existing successful experiences from the rural roads program and the modernization reforms being pursued by the central government. The disappearance of the former deconcentrated regional entities and the transfer of the responsibility for 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. [3] 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 expertise and the capacity-building of regional governments offer a unique opportunity to re-think the force account approach and rationalize road management activities.

In sum, the strategy will need to properly address the following key issues: (1) the poor conditions of the secondary road network which constrain mobility and ultimately the regions’ competitiveness and their ability to reduce poverty; (2) insufficient financial capacity of the regional governments to finance the rehabilitation and maintenance of the secondary road network (although it falls under their responsibility since 2002); (3) the low institutional capacity of these regions to perform these rehabilitation and maintenance activities in an efficient manner; and (4) the need to clarify and restructure the institutional framework and the responsibilities [4] at both the regional and central levels in the new context of decentralization. While the existing legal framework is generally clear enough to describe the respective responsibilities of the various levels of government, a few specific issues (eg. regulation of transport services and road safety) still need clarification. The proposed project will contribute to address these issues through a combination of investments, which would not take place in its absence, and a comprehensive technical assistance program be design to help regional governments strengthen their capacities, reengineer their organizations, and develop their normative and administrative

[3] 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.
[4] Including those related to the regulation of transport services and to road safety.

procedures, lest the decentralization process will prove fruitless in achieving higher efficiencies and better levels of economic development and poverty reduction.

The decentralization process is an opportunity to revamp the way road investments are planned, implemented and maintained, thus ultimately contributing to a better performance of the public sector. Participatory planning – with the preparation of participatory regional and provincial road plans closely coordinated with the PCDRs and the local development plans – can help prioritize among road investments and better align them with local needs. In addition, the transfer of responsibilities from the central to the regional and local levels, along with the corresponding institutional restructuring, is an opportunity to rethink the way road management activities are performed. This means in particular, a greater participation of the private sector and a phasing out of the old "force account" model in which certain road management tasks like maintenance are performed in house in a very inefficient way. Finally, the transfer of responsibilities and corresponding budgetary resources is an occasion to reassess the needs for an efficient and effective road assets' management and compare them with the level of the intergovernmental transfers and of the financial capacity of the lower levels of governments which become in charge.

A successful decentralization of regional road responsibilities to the regions would strengthen the whole decentralization process and prepare the ground for similar approaches in other sectors. The process will strengthen the regional institutional capacity and help demonstrate that regions can successfully handle new responsibilities in the infrastructure sectors. This could for example benefit to the on-going process to transfer rural electrification responsibilities at the regional level, which has been planned for the coming two years. Similarly, progress achieved for rural roads at the municipal level create a favorable environment to implement a decentralized rural infrastructure strategy, integrating the various infrastructure sectors (water/sanitation, roads, rural electrification, rural telecommunication). [5]

2. Objectives

The project is aligned with the CAS objectives and would build on past or on-going Bank interventions in decentralization and transport. One of the main priority of Peru's Country Assistance Strategy for 2003-2006 is public sector management and decentralization. While cautioning against the possible risks associated with decentralization, the CAS stresses that a well-conceived decentralization policy could make a significant contribution to improving public sector performance, if accompanied with clear transfers of responsibilities and development of local management capacity. The latest CAS progress report, presented to the Board of Executive Directors on November 9, 2004, cautioned that "inadequate physical infrastructure" was a significant bottleneck which "could hold back growth in the medium term" and supported the Government's plan to "consolidate the far-reaching reforms in fiscal decentralization and social service delivery by building capacity in sub-national governments".

The proposed project aims at ensuring a sustainable and successful transfer of expertise to the newly-created regional governments to efficiently manage the regional road network. To do so, it will build on the technical and methodological experience gained in implementing rural road

[5] A draft of such a strategy has been proposed by the World Bank to the GoP.

management (First and Second Rural Roads Projects) and transferring it to the municipal levels. The project will also strengthen the decentralization process and increase its impact on public sector management and on local development. As demonstrated at the municipal level by the Second Rural Roads Project, the road sector is a good starting point to operationalize the decentralization process and empower local governments. In a second stage, the experience gained in the road sector can be fruitfully applied by local governments to other infrastructure sectors (e.g., within a comprehensive rural infrastructure strategy as it is proposed in the CAS). In a similar fashion, the proposed project could prepare the ground for increased involvement of regional governments in other infrastructure sectors as envisioned in the decentralization agenda of the Government of Peru. Finally, this project builds extensively on the decentralization reforms implemented under the Programmatic Decentralization and Competitiveness Structural Adjustment Loan.

3. Rationale for Bank Involvement

To confront these issues, the GoP is very interested in finding new approaches to transport management at the regional level. For this purpose, the Government has established a 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.

4. Description

The project will include five components, each moving at different levels depending on the participating region. Each component contributes to the overall development objective by aiming at improving the prioritization, efficiency and/or effectiveness of transport interventions at the regional level.

Component 1: Participatory regional road planning (ie. Through participatory planning, the identification of regional road segments which are critical to regional development - estimated cost US$9.8 million of which US$4.9 million would be financed by the Bank Loan). This component will 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, [6] including a combination of both economic potential and poverty level criteria, has been prepared as part of project preparation, with due attention to environmental and social issues. The preparation of these plans will be handled by the planning units of the regional governments, with the technical assistance of some consultants. Provias Departamental will facilitate the process (eg. organize coordination event) and monitor the preparation of the plans. Ultimately, plans have to be formally approved by the regional council or by competent commission of the regional government. Some participatory regional road plans have been initiated and – in certain cases – finalized, as part of project preparation. This component will help finalize these plans in every eligible region, by financing the related costs (organization of participatory planning, training of the planning units, dissemination and coordination costs, updating or revision of certain plans). It will also finance the various feasibility and technical studies for the road segments prioritized through participatory planning.

Component 2: Road upgrading (ie. Improving mobility through the upgrading of about 4,900 km of regional roads - estimated cost US$149.7 million of which US$37.43 million would be financed by the Bank Loan). The objective of this component is to rehabilitate about 2,200 km of regional roads prioritized through participatory planning (under component 1) and to perform the periodic maintenance of 2,706 km of regional roads rehabilitated by Provias Rural and transferred to regional governments. Although only about a third of the secondary network would be upgraded as a result of this component, the ultimate development impact is expected to be high since the road segments to be upgraded have been selected according to their relevance for regional development. 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. The related upgrading tasks will contribute to skilled and unskilled employment generation in the regions. None of the works to be undertaken under this component will require resettlement or imply major impacts to the natural environment. Budgetary resources to rehabilitate about 1,900 km of secondary roads will be pre-assigned between regions based on road density per capita, on road conditions and on the financial capacity of the regions to bring counterpart funds. The resources corresponding to the remaining 300 km and the allocation of the regions which would not comply with project's requirements will be put in a "competitive fund" (fondo concursable) to be allocated in priority to the regions which have been the most efficient in implementing the program and the related institutional reforms.

Component 3: Road maintenance (ie. Improving the efficiency and effectiveness of routine road maintenance through scaling-up the micro-enterprise maintenance mechanism - estimated cost US$19 million of which US$0.85 million would be financed by the Bank Loan). This component would finance the routine maintenance - and the related supervision - of the 4,900 km of regional roads rehabilitated (or having received periodic maintenance) under the previous component. In addition, it would finance specific road maintenance interventions (annual mechanized maintenance also called *perfiles* in Spanish) performed once a year right after the rainy season. 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. The *perfiles* could be performed under force-account but the amount to be reimbursed by the project

[6] *Metodología para la formulación, evaluación y actualización de los planes viales participativos.*

would be fixed per kilometer and subject to a maximum per region. These activities are expected to generate unskilled employment opportunities, that could benefit to the rural poor. 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 adequately contracted to perform such maintenance). This activities will follow environmentally sensitive approaches, following current practices in Peru and other Latin American countries.

Component 4: Institutional strengthening (ie. Strengthening the decentralization process and ensuring the sustainability of the project through institutional capacity building - estimated cost US$17.5 million of which US$6.825 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. If necessary, some resources (up to a total of US$200,000) could be used to finance strategic studies related to the management of the regional road network in the context of national transport policies and programs, complementing other existing resources that focus on overall transport policy formulation. [7] Critical issues include: (a) the rationalization of the current institutional framework and in particular the restructuring (possibly merging) of the RRDs (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) training in safeguards management; (d) monitoring, auditing and evaluation; (e) clarification and assignment of regulatory responsibilities (for instance those related to the regulation of transport services and to road safety); and (f) timetable of actions for the restructuring of the PVD. Eligible expenditures for this component will include technical assistance, studies and evaluations, as well as training, dissemination and coordination costs.

Component 5 : Project administration (estimated cost US$4 million to be financed exclusively from national counterpart funds). The costs related to project administration would fall under this component.

5. Financing

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

6. Implementation

At the national level, the overall responsibility for project implementation and coordination will rest with a specific unit within Provias Departamental (PVD). During preparation, an agreement was reached on the number and qualifications of staff that this unit should have. Regional

[7] For example, IDB resources within its Third National Road Project.

governments will be in charge of the preparation and the implementation of the participatory regional road plans (components 1, 2 and 3) with technical assistance provided by PVD under components 1 and 4. In addition, this unit within PVD will be responsible for the project's overall monitoring and evaluation and for promoting coordination across regions.

The decentralization process implies that Provias Departamental evolves from an executing agency to a regulatory/promoting/supervising body. Within the institutional capacity building component, some resources will be made available in order to support this strategic evolution. In addition, some conditions for effectiveness have been tailored, including the closing of PVD's regional bureaus (the *Unidades Zonales*) and the commitment that no new construction or rehabilitation activities will be initiated by PVD (to be specified in the 2006 budget).

The Multisector Commission which has been set to supervise the preparation of the project and ensure coordination between the various relevant ministries and agencies will continue to act as a steering committee for project implementation. During implementation, this Multisector Commission will be replaced by a Multisector Advisory Committee which will continue to act as a high level coordination body and supervise project's implementation. This Committee will include one or two members representing the regional governments.

Strong coordination will be ensured with the MEF: first, through participation in the Multisector Commission and Advisory Committee, second, through participation in most – if not all - of preparation and supervision missions, and, third, through the overall economic analysis of the project, performed under the framework of the National System of Public Investment (SNIP in Spanish).

Coordination will also be ensured between PVD and the other relevant departments of the MTC. In particular, PVD will closely interact with Provias Rural in order to benefit from its extensive experience in decentralization of rural roads at the municipal level. PVD will also coordinate with Provias Nacional to ensure that the strategies developed for the primary and the secondary road network is consistent. Finally will also closely interact with other MTC departments on specific issues such as road classification (office of planning and budgeting), heavy equipments' stock (General Directorate of Roads and Railways) and social and environmental policies (DGASA). [8]

Within each region, the overall responsibility for project implementation will rest with the regional government. For component 1, the preparation of the participatory regional road plans will be performed by the planning unit of the regional government with the technical assistance of PVD. For components 2 and 3, a specific unit will be designated within the regional government's organizational structure to handle project implementation. In most of the regions, it is expected that this unit will be the RIMU or a unit within the RIMU. The designation of this unit and the commitment to rationalize the institutional structure in order to avoid duplication between RIMUs and RRDs, is part of the requirement for regional governments in order to be eligible to components 2 and 3. This unit will receive technical assistance and institutional capacity building support from PVD as part of component 4.

Table: proposed institutional and implementation arrangements

Component	Responsibilities of PVD	Responsibilities of Regional Governments

[8] *Dirección General de Asuntos Sociales y Ambientales* (General Directorate for Environmental and Social Affairs).

		Governments
1. Participatory planning	Coordinate, monitor and provide technical assistance to planning process	The planning units of the regional governments prepare the participatory regional road plans, according to agreed standards and methodologies
2. Road upgrading	Monitor implementation progress and consistency with agreed standards and methodologies Facilitate coordination across regions	A unit to be designated by each regional government implement (contracting, supervision) the participatory regional road plans, according to agreed standards and methodologies
3. Road maintenance		
4. Institutional strengthening	Coordinate and implement the institutional strengthening package designed to build capacity at the regional level Commit to implement the institutional strategy designed for PVD	Express needs and make best use of the technical assistance received Commit to implement the related institutional strategies (restructuring, phasing out of "force account" approaches)

Schedule of project implementation. The project will require a significant start-up period to fully develop in each eligible region, including (a) the preparation of the participatory regional road plans; (b) the fulfillment by regional governments of the conditions required to receive funding from components 2 and 3; (c) the building of minimal institutional capacity at the regional level; (d) rehabilitation works' identification, design, approval and procurement with due consideration to safeguards; and (e) the creation of sufficient micro-enterprises to perform the routine maintenance activities. The implementation schedule and disbursement profile reflect this expected longer startup period.

Partnership arrangements. The most important coordination takes place across the different regional governments, and with municipalities and other local stakeholder groups. Within regional government's, the participatory regional road plans – will be closely coordinated with other planning instruments such as the regional development plans. The project also seeks coordination mechanisms with other related government programs, such as the Program for the Modernization of the State. This coordinating framework has been structured and facilitated through a multi-sector Commission, consisting of representatives from the MEF, the CND (also representing the regions) and the MTC. Finally, the project coordinates closely with the Bank-funded Programmatic Reform Loans I and II (Decentralization and Competitiveness SAL), another technical assistance loan (TAL) that are expected to support the restructuring of regional governments, the IDB-funded support to the CND and the competitiveness agenda.

7. Sustainability

Sustainability is a cornerstone of the overall project strategy to ensure the quality, continuity and reliability of the regional transport interventions, within the broader decentralization agenda. For this reason, the project includes a significant number of dispositions within each of its four components in order to ensure a better sustainability.

A major condition for sustainability is that sufficient institutional capacity has been built at the regional level by the end of the project. To this end, a minimum set of institutional pre-conditions for regional governments to participate in the project has been determined and a customized and comprehensive institutional strengthening program will be implemented as part of component 4. It will help provide tailored training and expertise to each regional government in all aspects of planning, road asset management and safeguards. In addition, the restructuring of PVD should refocus the mission of the central agency on providing institutional support to the regions, thus contributing to the overall sustainability of the decentralized framework. Finally, the "competitive fund" has been introduced with the ultimate objective of providing additional incentive for greater sustainability by rewarding the regional governments that have implemented institutional reforms in a sustainable fashion.

A second major condition to the sustainability of the improvement in secondary road conditions is that adequate levels of maintenance are performed. To this end, component 3 will support the scaling up of the micro-enterprises model which has already been successfully experimented by Provias Rural, including for 2,706 km of regional roads transferred to regional governments.

To make institutional reforms associated to the decentralization process to the maximum extent irreversible and – therefore, sustainable -, phasing out strategies have been included in the project design. In particular, the successful downsizing and refocus of Provias Departamental will be a substantial contribution to the sustainability of the decentralization process in the road sector. Similarly, the strategies that will be prepared by regional governments in order to phase out the old "force account" approach to road rehabilitation and maintenance are an additional effort towards the sustainability of the new, more efficient, model based on the contracting out of these activities.

The project is also trying to promote a sustainable approach to participatory regional road planning. Planning units within each regional government will be trained and receive the necessary technical assistance to fully prepare these plans and disseminate their results. In addition, some resources will also be made available if it becomes necessary to revise or update these plans, thus ensuring the sustainability of the planning process.

Finally, a critical issue to ensure sustainability is that sufficient flows of funding are made available to regional road asset management. During project preparation, a fiscal framework has been discussed and agreed with MEF to ensure that disbursements would not be constrained by indebtedness ceilings (see paragraphs C4 and C5 of Annex 1). An assessment of the financial capacity of regional governments within the fiscal decentralization context has also been performed, ensuring that regional counterpart funding would be made available (see paragraph C3 of Annex 1).

It should also be noted that, in the past, revenues from road users' charges and fees have been exceeding significantly road expenditures. Therefore, the sector is in theory self-sustainable, provided that sufficient resources generated by the sector are earmarked to improve transport conditions and maintain roads at an acceptable level. According to an analysis undertaken in 2000, [9] these revenues amounted to an annual average of about US$570 to US$600 million in the period 1997-1999 (see paragraph C2 of Annex 1).

[9] Guerra-Garcia, 2000.

8. Lessons Learned from Past Operations in the Country/Sector

The design of the proposed program builds on the following lessons from other initiatives in Peru [10] or other countries:

a) **participatory planning allows to identify the investment which are the best tailored to local needs –** the preparation of the regional road plans will ensure that local stakeholders' needs are fully reflected in the prioritization of investment alternatives. There is large international evidence supporting a decentralized approach to road planning and showing that local users know better than central agencies what infrastructure need to be improved in order to fit their needs and complement in the most efficient way other existing or planned development programs.

b) **road infrastructure investment are key to the competitiveness agenda and, therefore, they should be prioritized in order to develop economic opportunities –** improvement of tertiary roads' conditions under Peru's second rural road program has halved transport time and reduced transport costs by a third. In addition to improving access to basic services (education , health), this has had a tremendous impact on the productivity of rural economies and on enhancing access to local markets. Peru's development plans and strategies [11] as well as the local participatory development plans give a significant importance to transport infrastructure as a key instrument to foster a more balanced economic growth and improve the competitiveness of the Peruvian regions and territories. For that reason, the methodology proposed by this project to prioritize among territories and investment alternatives emphasizes economic potential criteria (e.g. agricultural or mining production, tourism frequentation).

c) **decentralization works when it is gradually implemented along with the transfer of sufficient technical and management expertise as well as budgetary resources –** experience from the decentralization reforms in other countries and from Peru with the rural roads' project have shown that the transfer of new responsibilities to sub-national governments is successful when it is performed on a timely basis along with the transfer of corresponding budgetary resources and the building of institutional capacity. For that reason, the proposed project includes (1) eligibility conditions establishing the commitment of the regions to the project's objectives; (2) securing sufficient funding for road maintenance in regional governments' budgets; and (3) institutional building of the regions with the restructuring of the RRDs and RIMUs and the reform of the new unit.

d) **road construction, rehabilitation and maintenance is more efficiently performed by private operators than by public agencies –** international experience shows that a more efficient framework for road management can be created when transport ministries and public agencies evolve towards a regulatory role in which they set up the overall framework for road management (ie. planning, regulation, standards, etc.) while the actual implementation is contracted to private operators. In Peru, the tertiary road

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[10] In particular the Programmatic Decentralization and Competitiveness Structural Adjustment Loan (SAL), the Second Rural Roads Project and the Rural Infrastructure Strategy.

[11] Such as the *National Strategy for Poverty Reduction and the Development of Economic Opportunities for the Poor*, the *National Plan for Territorial Development*, the *Sierra Rural Development Strategy* and the *Plan for the Sustainable Development of the Amazonian Region*.

network is managed in such a way while the primary and secondary networks are still largely managed under a "force account" model. The proposed project aims at taking advantage of the transfer of responsibilities to the regions for secondary network management, to change the existing model, with outsourcing of rehabilitation and maintenance activities to private operators.

e) **the use of micro-enterprises for road maintenance has proved to be successful in creating an entrepreneurial capacity in rural Peru –** the second rural road project (but also similar initiatives in other countries such as Colombia, Bolivia or Honduras) has shown that micro-enterprises can perform routine road maintenance in an efficient way, while creating employment opportunities for the rural poor (men and women). The proposed project aims at scaling up this model, building on the successful piloting experience of Provias Rural with 2,500 km of regional roads.

9. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	[X]	[ ]
Natural Habitats (OP/BP 4.04)	[ ]	[X]
Pest Management (OP 4.09)	[ ]	[X]
Cultural Property (OPN 11.03, being revised as OP 4.11)	[X]	[ ]
Involuntary Resettlement (OP/BP 4.12)	[X]	[ ]
Indigenous Peoples (OD 4.20, being revised as OP 4.10)	[X]	[ ]
Forests (OP/BP 4.36)	[ ]	[X]
Safety of Dams (OP/BP 4.37)	[ ]	[X]
Projects in Disputed Areas (OP/BP/GP 7.60)*	[ ]	[X]
Projects on International Waterways (OP/BP/GP 7.50)	[ ]	[X]

Social safeguards, including the involuntary resettlement policy framework, and the environmental policies and procedures are described above. The safeguard policy on **cultural property** has also been included as required by recent Bank policies. In the event that chance findings of goods or sites that might appear of cultural significance are encountered during the project implementation, works will be stopped and the relevant authorities called upon to investigate the site. If these goods and sites are found of cultural significance, the subproject will be redesigned to avoid any harmful effects to such goods or sites, or otherwise cancelled altogether. These requirements and those related to environmental policies will be incorporated into the Project Operational Manual.

10. List of Factual Technical Documents

- Design of Peru's Decentralized Road Management Model (*Diseño del Modelo de Gestión Vial Departamental Descentralizada del Perú*) – FERNANDEZ, Otoniel – Ministry of Transport of Communications, Lima (July 2004).

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

- Guidebook for the preparation of participatory regional road plans (*Manual de Procedimientos para la Formulación de los Planes Viales Departamentales Participativos*) - Ministry of Transport of Communications, Lima (November 2003).

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