

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA32099

<b>Project Name</b>	Subnational Transport Support Program (P132515)
<b>Region</b>	LATIN AMERICA AND CARIBBEAN
<b>Country</b>	Peru
<b>Sector(s)</b>	Rural and Inter-Urban Roads and Highways (50%), General transportation sector (30%), General public administration sector (20%)
<b>Theme(s)</b>	Decentralization (40%), Rural services and infrastructure (40%), Trade facilitation and market access (20%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P132515
<b>Borrower(s)</b>	Republic of Peru
<b>Implementing Agency</b>	Provias Decentralizado
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	10-Aug-2015
<b>Date PID Approved/Disclosed</b>	10-Aug-2015
<b>Estimated Date of Appraisal Completion</b>	06-Aug-2015
<b>Estimated Date of Board Approval</b>	24-Sep-2015
<b>Appraisal Review Decision (from Decision Note)</b>	<p>i. The project is not completely ready for appraisal; therefore the mission to be carried out the week of June 22-26, 2015 will be preparation/ “pre appraisal”.</p> <p>ii. The current Board date of September 17, 2015 is unlikely to be met due to the delays incurred by the client/PVD in completing the feasibility study.</p>
<b>Other Decision</b>	On July 16 the CMU decided to upgrade the Pre-appraisal mission to Appraisal, based on the documentation and the BTOR submitted by the project team following the mission of June 22-26, 2015, and after ensuring that all relevant and mandatory documents have been disclosed.

## I. Project Context

### Country Context

1. In the past decade Peru has displayed strong economic performance reaching high growth rates, low inflation, macroeconomic stability and reduction of external debt. During the financial crisis of 2009 Peru’s economy registered a modest growth, followed by a speedy recovery an average rate of 6.5 percent during 2010 – 2014. Economic growth has been accompanied by

sustained decrease in the poverty rate. Indeed, between 2005 and 2014, the poverty headcount fell from 55.6 percent to 22.7 percent, while extreme poverty was reduced from 15.8 percent to 4.3 percent. Similarly, the record in shared prosperity has been very positive, with income growth of the bottom 40 percent averaging 6.6 percent per year against 3.7 percent for the overall population between 2008-2013. Notwithstanding this good performance, disparities across the country remain high, particularly between rural and urban areas. In 2014, while the poverty rate was only 15.3 percent in urban areas, it stood at 46 percent in rural areas.

2. In 2011 the new Government of Peru (GoP) launched an ambitious agenda to overcome social inequalities and boost productivity while maintaining high economic growth rates under a solid macroeconomic framework. Under this agenda, the main objectives of the Government are to improve access to services, increase employment, raise coverage of the social safety net, significantly reduce extreme poverty, better monitor environmental impacts, and enhance connectivity with the rural areas of Peru. In addition, the country has been engaged in a decentralization process that will allow regional and local governments to assume additional responsibilities for regulation, public expenditure management and service delivery.

### **Sectoral and institutional Context**

3. The dispersion of population in Peru - due to its geographic conditions – has always been a significant cause for persistent rural poverty, hampering the access to markets and public services. In his recent research on “Connectivity and Rural Development” (2013), Richard Webb demonstrates that “the central engine of rural development in Peru has been improved connectivity, which includes the roads – some built by the communities - and other infrastructure for the transportation of goods and people.”

4. Despite the remarkable economic growth over the last decade, Peru still faces important gaps in the quantity and quality of its infrastructure which constitutes a bottleneck to its competitiveness and shared prosperity goals. In particular, the low availability and poor quality of its road network is constraining mobility and increasing logistics costs, and remains a major obstacle to growth and poverty reduction in many poor areas of rural Peru. To address these issues, the Strategic Sector Plan 2012- 2016 of the Ministry of Transport and Communications (MTC) for the road sector is focused on the establishment of logistics platforms and corridors that facilitate trade and help to better address the local and international markets demands. In this Plan, the MTC has prioritized 22 logistics corridors through which the most relevant commercial and local products are being mobilized. The identified logistic corridors comprise national, secondary and rural roads over a total length of 25,700 km. Reducing transport and logistics costs on the tertiary roads linking the production areas to the distribution centers along corridor networks has become a priority. The logistic costs in Peru are estimated to represent 29% to 34% of the retail price, while the average in Latin America is 24% and in the OECD countries only 9%. Recent analytical work carried out by the Bank shows that poor transport infrastructure and services are the main cause for product losses on tertiary roads, and transport cost may account for up to 75% of the total logistics cost, based on information on selected key-export corridors for agricultural products .

6. Although improving competitiveness through better logistics is the main driver of MTC’s Strategic Plan, promoting social inclusion remains a key objective for the Government. Given the geographical challenges of the country, the programs that support rural roads therefore are expected to support the goals of improved connectivity, local market development, increased trade and

transport and access to services, and ultimately productive inclusion of the poor.

7. In line with GoP's priorities, the purpose of the proposed Subnational Transport Support Program (STSP) is two-fold: (i) to support investments in rural roads that link the poorest and most remote districts of the country; and (ii) to support physical, institutional and regulatory investments to improve road transport infrastructure and services in selected tertiary roads feeding logistics corridors prioritized by MTC. The Program will be developed at the levels of the local/provincial governments that have jurisdiction over the secondary and tertiary (rural) road networks, aiming at further strengthening the decentralization process started more than a decade ago in Peru, while maintaining close coordination with the central government.

8. Research has shown that poor access to services is a defining characteristic of poverty. The International Labor Organization (ILO) states that “lack of access has its impact at the most basic level of living: if there is poor access to health services, people will remain unhealthy; [...] if there is poor access to basic information the household will be unaware of ideas and technology that might help them to lift their level of living.” Taking this into account, investing in infrastructure, particularly in poor rural areas, can hence help to improve the well-being of rural households by providing easier access to basic services and income generating activities. There is increasing evidence that rural roads projects can have significant impacts on household welfare, asset ownership, agricultural productivity, and access to basic services. In the case of Peru, a survey in 176 rural districts in the poorest and previously isolated areas in the Andean provinces revealed two major changes over the years, which are explained by the improvement of rural accessibility. First, between 2001- 2011 the daily rate for farm workers rose by an average of 73 percent in real terms, the price of a hectare of agricultural land by 88 percent and that of a house in the local town by 166 percent. Second, over the same period, travel time to the nearest city dropped from almost nine hours to just under four and a half hours. This had a large effect on the number of health consultations, increasing them by 70 percent.

## II. Proposed Development Objectives

The Program development objectives are to (i) facilitate sustainable road access of Peru's rural populations to services, (ii) reduce transport costs on rural roads linked to priority logistics corridors, and (iii) strengthen decentralized road management.

## III. Project Description

### Component Name

#### 1. Infrastructure for Integration and Social Inclusion

#### Comments (optional)

with the following two subcomponents:

1.1 Infrastructure for Social inclusion (US\$169.7 million of which the Bank 7.3 million): will scale up the previous rural roads programs by prioritizing interventions that promote accessibility and social inclusion of the poorest rural areas.

1.2 Integration of the Feeder Network into Selected Logistic Corridors (US\$236.1 million of which the Bank 27.7 million): will support MTC's competitiveness agenda by improving the transitability of subnational roads linked to/feeding into selected logistic corridors, in the regions of Puno, Cusco, and San Martín

**Component Name**

2. Subnational Road Infrastructure Maintenance

**Comments (optional)**

This component will finance activities to support an efficient and sustainable decentralized maintenance of the subnational road network.

**Component Name**

Decentralized Road Management

**Comments (optional)**

This component will finance equipment, technical assistance and training activities at both subnational (local governments) and central (PVD) levels to support the consolidation of the decentralized transport management agenda.

**Component Name**

Program Management

**Comments (optional)**

This component will cover Program incremental administrative costs, including staff, audits, information dissemination, program activities related training, and operational support through consulting services.

**IV. Financing (in USD Million)**

Total Project Cost:	600.00	Total Bank Financing:	50.00
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
Borrower			500.00
International Bank for Reconstruction and Development			50.00
Inter-American Development Bank			50.00
Total			600.00

**V. Implementation****A. Institutional and Implementation Arrangements**

9. Implementation Agency. At the national/Program level, the overall responsibility for management and coordination will rest on Provias Decentralizado (PVD). PVD was created in August 2006 after the merger of two previously existing entities: Provias Rural and Provias Departamental. It is the executing arm of MTC with technical, administrative and financial autonomy, in charge with the activities of preparation, management, and implementation of rural transport infrastructure. Overall, PVD has a long standing tradition as the implementing agency for decentralized road projects/programs, having completed several operations in partnership with multilateral organizations (Bank and IADB in recent years) with a satisfactory record. PVD is familiar with Bank and IADB procedures. PVD's technical staff will be in charge of the procurement and supervision contracts for the more complex rehabilitation works for rural roads under sub-component 1.2 supporting logistics corridors. The planning, procurement and management of civil works contracts and related activities under sub-component 1.1 supporting social inclusion will be carried out by the provincial governments (PG) with technical support, as the case may be, from the Provincial Road Institutes (PRI), under the PVD supervision. A Program Coordination Group

(PCG) led by a Coordinator will be in charge with the Program implementation. The PCG is made of the most experienced staff in PVD, and it reports directly to the Program Steering Committee under PVD's Executive Director.

10. PRIs are decentralized technical bodies whose capacity has been supported by PVD (e.g. they include a technical staff from PVD, who assists with planning and works design; they receive training through PVD programs, etc.) governed by the Provincial Road Boards; the latter include all the mayors (district and provincial) of each province. PRIs operating expenditures are covered by contributions from municipalities based on distributions criteria decided by the Provincial Road Board, and depending generally on the level of intervention in the respective territories. Currently, most of the PRIs focus on the execution of routine maintenance through the micro-enterprises (planning, training, contracting and supervision) on behalf of the PGs.

## VI. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36	x	
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10	x	
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

### Comments (optional)

## VII. Contact point

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**VIII. For more information contact:**

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