

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC12247

Project Name	Subnational Transport Support Program (P132515)
Region	LATIN AMERICA AND CARIBBEAN
Country	Peru
Sector(s)	Rural and Inter-Urban Roads and Highways (50%), General transportation sector (30%), General public administration sector (20%)
Theme(s)	Decentralization (40%), Rural services and infrastructure (40%), Trade facilitation and market access (20%)
Lending Instrument	Investment Project Financing
Project ID	P132515
Borrower(s)	REPUBLIC OF PERU
Implementing Agency	Provias Decentralizado
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	05-Nov-2014
Date PID Approved/ Disclosed	10-Nov-2014
Estimated Date of Appraisal Completion	01-Jun-2015
Estimated Date of Board Approval	12-Aug-2015
Concept Review Decision	Track I - The review did authorize the preparation to continue

I. Introduction and 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 with rates between 5 and 8 percent during 2010 – 2014. Economic growth has been accompanied with sustained decrease in the poverty rate. Indeed, between 2005 and 2012, the poverty headcount fell from 55.6 percent to 25.8 percent, while extreme poverty was reduced from 15.8 percent to 5.4 percent. Similarly, the record in shared prosperity has been very positive, with income growth of the bottom 40 percent averaging 6.8 percent per year against 5.4 percent for the overall population in the same period. Notwithstanding this good performance, Peru has not been able to achieve a more inclusive economic growth. Disparities across the country remain high, particularly between rural and urban areas. In 2012, while the poverty rate was only 16.6 percent in urban areas, it stood at

53.1 percent in rural areas.

2. In 2011, the 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 regulation, public expenditure management and service the decentralization process started more than a decade ago in Peru, while maintaining close coordination with the central government

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 logistic costs, and remains a major obstacle to growth and poverty reduction in many poor areas of rural Peru.

5. To address these issues, the GoP’s long term strategy for the road sector is guided by the following goals:

- Aligning public investment in transport infrastructure with the country competitiveness needs (primary, secondary and rural networks);
- Expanding the assets of the rural poor and tackling inequalities through the improvement of transport conditions in rural areas and coordination with other infrastructure sectors;
- Fully decentralizing, at the regional and local levels, the management of the secondary and tertiary road networks (i.e. empowering local stakeholders through the promotion of participatory planning, implementing the corresponding institutional reforms and building capacity);
- Promoting private sector participation in transport infrastructure (construction, rehabilitation, operation, maintenance, etc.) and developing road concessions whenever feasible;
- Refocusing the role of public agencies on regulation and strategic planning and phasing out their direct involvement in physical works.

6. With this objective in mind, the Ministry of Transport and Communications (MTC) has focused its Strategic Sector Plan 2012-2016, on the establishment of logistics platforms and corridors that facilitate trade and help to better address the local market 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. Each corridor includes a primary axis (national road) and one or more secondary feeder sub-networks (secondary and rural roads).

7. Although improving logistics services 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 these goals of improved connectivity, increased trade and transport and access to services.

8. In line with GoP's priorities, the main purpose of this Program is two-fold: (i) to support needed interventions (physical, institutional and regulatory) to improve road transport infrastructure and services in selected secondary and tertiary roads feeding into some of the logistics corridors prioritized by MTC; and (ii) to support investments in rural roads that link the poorest and most remote areas of the country. The Program will be developed at the levels of the regional and local 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.

9. The new Program will build on the experiences from the rural roads programs supported by the Bank over the past decade, and will help consolidate and expand gains made in the decentralized road management agenda. This will be done by further strengthening the capacity of the local government authorities across the three jurisdictional levels (regional, provincial, and district), particularly with regard to accountability related to the regulation of transport infrastructure and services. The Program will introduce innovative features such as giving particular emphasis to the development of key measures needed to promote more efficient road transport infrastructure and logistic services; and supporting the integration of subnational government, investment planning and budgeting into the new GoP policy of "budgeting for results".

10. Research has shown that poor access to services is a defining characteristic of poverty. As 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 help to improve the well-being of rural households by providing easier access to basic services and income generating activities. In fact, a survey of municipal officials in 176 rural districts in the poorest and previously isolated areas in the Andean provinces of Peru revealed two major changes over the years. First, in 2001-11 the day rate for farm laborers 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, in the same period, journey times to the nearest city dropped from almost nine hours to just under four and a half. This had a large effect on the number of health consultations, increasing them by 70 percent.

Relationship to CAS

11. The proposed Program to be supported by the Bank is directly related to the five-year World Bank Group (WBG) Country Partnership Strategy (CPS) for 2012-2016. The CPS focuses on supporting the Government in improving equity through social services, infrastructure and competitiveness, while continuing to preserve macro stability. Peru needs more and better public infrastructure and social services, particularly for those living in poverty, and the proposed Program is fully aligned with this strategic vision of the GoP. Building on progress made in the transport sector for the last three years, the Government strategy seeks to expand road infrastructure to promote inclusion. Rural populations in Peru, especially those in the highlands, do not have

adequate access to services or markets. The Government strategy, supported by the CPS, includes the following elements included in the Program: (i) extending the rural roads network particularly in landlocked regions; (ii) consolidating and modernizing the sector institutions (in this case Provias Decentralizado and local governments); and (iii) providing services and promoting innovation and standardization through enhanced capacity-building within the sector.

12. The Program also supports squarely the WB twin goals of reducing poverty and promoting shared prosperity. Road rehabilitation works will take place in 23 departments targeting the districts with the highest poverty and vulnerability levels in the country. In this respect, almost 5 million inhabitants - most of whom belong to the lower two quintiles of the income distribution - would directly benefit from the Program. More specifically, the envisaged works will lead to important social and economic outcomes in terms of: i) direct and indirect job creation and other income-generating opportunities, ii) improvement of agricultural incomes through reduced travel times to markets, iii) better access to health and education facilities in the under-served rural areas, particularly in the highlands where some villages are virtually disconnected from basic public services, and iv) in the medium to long term, increased productive investments in beneficiary communities and employment opportunities for residents, which in turn, would improve household consumption and decrease poverty rates.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

13. The development objective is to facilitate access of rural populations within the Program area to public services, logistics corridors and employment opportunities through the improvement of rural road infrastructure and strengthening of the decentralized road management.

Key Results (From PCN)

14. The key results are:

- (i) Number of people with access to all-season road (core sector indicator);
- (ii) Increased traffic from rural areas to a selected logistics corridor;
- (iii) Reduced travel time to schools and health centers/hospitals; and
- (iv) Rural roads rehabilitated (km) (core sector indicator/intermediate)

15. Impact on employment opportunities for poorer segments of the population will be assessed through measurement of job created directly and indirectly by the Program in the road rehabilitation and maintenance activities, and improvements in accessibility to jobs, respectively. The impact assessment is to be carried out at the end of Program implementation.

III. Preliminary Description

Concept Description

16. The proposed project will support the 5-year Government Program totaling US\$600 million, of which the Bank loan will finance US\$50 million (8.5% of the Program proceeds). The remaining US\$550 million are to be co-financed by the Inter-American Development Bank (IDB) (US\$50 million) and the GoP counterpart funds (US\$500 million). The Project consists of five components, as follows:

- Component 1- Infrastructure Social inclusion (US\$219.7 million of which the WB US\$21.2 million). This component will scale up the decentralized rural roads policies that have been

successfully developed during the previous rural roads projects, prioritizing interventions that promote social inclusion of the poorest rural areas. Activities to be financed include: (i) rehabilitation and improvement of rural roads prioritized through participatory planning; (ii) improvement of non-motorized transport (NMT) tracks; (iii) reconstruction and improvement of bridges that are critical to ensure connectivity on rehabilitated rural roads; (iv) a Pilot for slopes stabilization; and (v) initiatives under a Local Development Window (LDW) model developed during the second Rural Roads Project with the purpose of accelerating the emergence of productive activities in the areas where transport conditions have been improved. For each activity, the project will finance feasibility and technical studies, safeguards-related studies (e.g. environmental impact assessments), civil works – including related road safety measures - and supervision.

- Component 2- Integration of the Feeder Network of Selected Logistic Corridors (US\$219.7 million of which the WB US\$21.2 million). This component will support MTC's competitiveness agenda financing works and technical assistance activities to improve the transitability of subnational roads and transport services within selected logistic corridors. In particular it will finance: (i) rehabilitation or improvement of secondary and rural roads linked to selected logistics corridors; (ii) development of alternative technologies for rural roads rehabilitation; and (iii) a Logistics Development Window. For each activity, the project will finance feasibility and technical studies, safeguards-related studies (e.g. environmental impact assessments), civil works -- including related road safety measures - and supervision.
- Component 3- Subnational Road Infrastructure Maintenance (US\$120 million of which the WB US\$6.3 million). This component will finance activities to support an efficient and sustainable decentralized maintenance of the subnational road network. In particular, the project will finance periodic and routine maintenance activities on the secondary and rural networks (including bridges and non-motorized transport tracks), the preparation of the related technical profiles, and supervision services. It includes the continuation of routine maintenance program through microenterprises. The WB loan will finance periodic maintenance activities.
- Component 4- Decentralized Road Management (US\$15 million, of which the WB US\$1.2 million). This component will finance activities both at the subnational and central (Provias Decentralizado) (PVD) levels to support the consolidation of the decentralized transport management agenda. At the subnational level, the Program will finance initiatives to increase the capacity of regional and local governments to manage road assets, address externalities and improve the institutional and regulatory frameworks. More specifically, the project will support: (i) technical assistance to improve decentralized road transport management, strengthening monitoring and evaluation, institutional development and regulatory frameworks to increase the efficiency of transport infrastructure and service provision (ii) studies on rural road safety and climate change; (iii) studies on the resilience and vulnerability of the rural road infrastructure; and (iv) communication and IT equipment for decentralized road management of PVD.
- Component 5 - Program Management (US\$25.6 million of which the WB US\$0.1 million). This component will cover Program administrative costs, as well as monitoring, evaluation, audits, information dissemination, program activities related trainings, and operational support. The Program will be managed by PVD in close coordination with other ministries, such as the Ministry of Development and Social Inclusion (MIDIS), MTC and MEF.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	

V. Financing (in USD Million)

Total Project Cost:	600.00	Total Bank Financing:	50.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			500.00
International Bank for Reconstruction and Development			50.00
Inter-American Development Bank			50.00
Total			600.00

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