

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

Report No AB5652

Project Name	PERU VILCANOTA VALLEY PROTECTION AND DEVELOPMENT PROJECT (VILCANOTA II)
Region	LATIN AMERICA AND CARIBBEAN
Sector	General Transportation sector (30%), Solid waste management (30%); Flood protection (20%); Sub-national government administration (20%).
Project ID	P117318
Borrower(s)	GOVERNMENT OF PERU
Implementing Agency	COPESCO Plaza Tupac Amaru s/n Distrito Wanchaq Cuzco Peru Tel: (51-84) 581540 Fax: (51-84) 236-712 frodriguez@copesco.gob.pe
Environment Category	<input checked="" type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	February 8, 2010
Estimated Date of Appraisal Authorization	October 30, 2010
Estimated Date of Board Approval	March 31, 2011

1. Key development issues and rationale for Bank involvement

Peru had one of the strongest growth performances in the Latin America and the Caribbean Region in recent years, with growth accelerating from 6.4% in 2005 to 9.8% in 2008. The global financial crisis had a severe negative impact on Peru's short-term growth (real GDP growth dropped to around 1.5% in 2009). Notwithstanding this sharp decline, however, these figures reflect a relatively positive performance, considering that Latin America as a whole contracted by 2.5% in 2009, according to the IMF's World Economic Outlook (October 2009).

In spite of its good recent performance, Peru still lags behind its neighbors in terms of infrastructure investment needs and quality gaps. Peru ranked 19th out of 23 LAC countries in a 2008 infrastructure review.¹ In response to the financial crisis and in order to address the infrastructure gap, the Government is implementing a 3.2% of GDP "anti-crisis" fiscal stimulus plan with a strong focus on infrastructure investments, many of which are expected to be carried

¹ *Ranking de Infraestructura 2008*, Anand Hemmani, CG/LA.

out by sub-national governments. In this connection, key challenges are: (i) to ensure the effective implementation of these infrastructure investments, especially at the sub-national level; and (ii) to ensure that these investments promote economic activity in a socially and environmentally sustainable way. The proposed operation, which focuses on tourism-related infrastructure, is specifically designed to help address these challenges.

Investments in tourism infrastructure can help fight poverty in the aftermath of the crisis.

A recent World Bank study on the economic impact of tourism in Peru² concluded that tourism activities are effective in decreasing the percentage of the population below the poverty line. The reduction in poverty achieved through tourism is greater than that achieved through other sectors (e.g., agriculture, manufacturing, or mining). For every 1% increase in the relative importance (as the % of total workers) of hotels and restaurants, there is a decrease in total poverty of 9.9%; (by comparison, for every 1% increase in the relative importance of the mining sector, a reduction in total poverty of only 0.4% is realized).

In the past decade, there has been a significant increase in tourism flows to Cusco and the Vilcanota Valley, as well as an influx of migrants from other parts of Peru, in search of economic opportunities. Due to their lack of preparedness in tourism management and deficient infrastructure and services, Cusco and the Vilcanota Valley – Peru’s flagship environmental, cultural, and economic assets – are not only falling short of their potential, but are subject to growing risks. The most significant of these include substantial risk from natural disasters, given the area’s steep and unstable mountainsides and other geophysical features. Whether or not they have links to the tourism sector, Vilcanota Valley residents demand greater access to infrastructure and services and greater connectivity, as municipalities are currently unable to meet these rapidly growing demands.

In 2004, the World Bank approved a US\$ 4.98 million loan for the Vilcanota Valley Rehabilitation and Management Project (Vilcanota I), with the objective of supporting the Government of Peru’s efforts to enhance the environmental and socio-economic sustainability of historical, cultural, and ecological assets in the Vilcanota Valley. However, due to a mismatch between the expectations raised by the Project and its insufficient resources, as well as the limited capacity of the executing agency and the complexity of the project design, that project suffered significant delays during its first three years of implementation. The Project was restructured in January 2009 to refocus its limited resources on strategic studies and engineering designs aimed at leveraging future investments, and to transfer the execution of most components from the Peruvian central government to the Cusco Regional Government, through its implementing agency COPESCO. These modifications were accompanied by intensive capacity building and technical assistance. Since the restructuring, project implementation has improved greatly, and implementation Progress is currently rated Moderately Satisfactory.

Even as the implementation of Vilcanota I was gathering momentum, Cusco and the Vilcanota Valley were hit by major flooding. The heavy rains of January and February 2010

²*The Peruvian Tourism Sector as a Driver of Shared Growth*, World Bank, 2009.

caused major damage to key infrastructure (such as roads and the railway that is the only access to Machu Picchu), as well as damage to historic structures, loss of crops, and the death of as many as 20 local residents. 3,500 tourists were stranded in Machu Picchu for several days and had to be evacuated by helicopter. This disaster has brought into sharp focus the need to manage disaster risk and enhance disaster preparedness, as a key component of any future intervention.

Building on the preparatory work achieved under the restructured Vilcanota I, the proposed Vilcanota II Project is intended to carry out a program of infrastructure investments aimed at conserving and enhancing the environmental and cultural heritage of the Vilcanota Valley and Province of Cusco and strengthening disaster risk management capabilities and transport infrastructure, with a view towards promoting economic development and poverty reduction through responsible tourism and commerce. Preparation and implementation of the proposed IBRD loan by the Cusco Regional Government is expected to enhance that new counterpart's capacity to identify, prepare, and implement infrastructure investments at the regional level. A number of public consultations were held, evaluations (such as the Strategic Environmental Assessment) and management plans (the Environmental, Social and Cultural Management Framework, communication strategy and grievance mechanisms) developed that lay the groundwork for Vilcanota II. The Environmental Impact Assessments for two Vilcanota II components (the Ollantaytambo Bypass Road and the Solid Waste System) are being prepared this year under Vilcanota I.

Vilcanota II will be the first IBRD-financed operation to be prepared and implemented by a regional government in Peru. This is consistent with the priority attached in the CPS to supporting the government's decentralization effort. Indeed, the proposed operation is fully aligned with the CPS, supporting all three of its pillars, i.e.: (i) promoting economic growth by (a) sustaining growth and widening its base, and (b) making growth environmentally sustainable; (ii) promoting social development by meeting basic needs; and (iii) modernizing institutions. The proposed Project would complement other initiatives of the World Bank Group to support the Regional Government of Cusco (such as the PPIAF/SNTA-financed technical assistance and the IBRD-IFC Sub-national Guarantee Facility).

Discussions with the Peruvian Ministry of Finance (MEF) concluded that the Vilcanota II Project should be prepared as an IBRD loan at the national government level, with arrangements for the subsequent transfer of loan proceeds to the Regional Government of Cusco, following the same procedure as that adopted for the existing Vilcanota I Project. The Regional Government would assume full responsibility for implementation, in direct relationship with the Bank, and would repay the loan to the national government.

2. Proposed objective(s)

The proposed PDO is to help preserve and enhance the environmental, cultural and tourism infrastructure assets of the Province of Cusco and the Vilcanota Valley in Peru. This would be achieved by: (i) improving solid waste management, disaster risk management, and transportation infrastructure; (ii) protecting and enhancing key historic sites; and (iii) creating new capacity and instruments for tourism development planning. Possible project performance indicators are: (i) entry into operation of a new solid waste management system, with a sustainable operation and maintenance framework in place; (ii) completion of the road and

rail bypass designed to preserve the historic center of Ollantaytambo; and (iii) adoption of a new planning framework for tourism development in the Cusco Region, enhancing the Regional Government's capacity to collect and analyze relevant information and move towards evidence-based policymaking and planning in the tourism sector.

3. Preliminary description

The main components of the proposed project will be selected among the following:

Component 1 – Ollantaytambo Road and Rail Bypass (US\$12 million). The road and rail bypass of the town of Ollantaytambo is critical to the survival and preservation of that town's historic center, currently being damaged by vibration and pollution from the heavy traffic crossing it daily. This component would build on the diagnosis, feasibility study (including Environmental Impact Assessment), and designs currently being financed under the Vilcanota I Project, for a bypass road to divert commercial and tourism-related traffic from the historic Inca town center. This would allow for monument preservation, pedestrian safety, pollution reduction, and improved traffic circulation, as well as making the center both more walkable and pleasant for tourists and residents alike. The proposed activities will enhance the health and quality of life of local residents and improve tourism conditions, thereby strengthening the local economy.

Component 2 – Solid Waste Management System for the Provinces of Calca, Cusco, and Urubamba (US\$15 million). The precarious dumps currently used for solid waste disposal by the Provinces of Calca, Cusco, and Urubamba, and the large amounts of uncollected waste in the region, have a negative impact on public health, the environment, the local landscape, and tourism. This component would build on the diagnosis, feasibility study (including Environmental Impact Assessment), and designs currently being financed under the Vilcanota I Project, by implementing a new regional system of solid waste collection, transportation, and disposal, in conformity with current environmental and social best practice standards, and including viable and sustainable arrangements for management and maintenance.

Component 3 – Disaster Risk Management and Disaster Preparedness (US\$21 million). The town of Machu Picchu Pueblo (also known as Aguas Calientes) has a high level of exposure to natural disasters, due to its peculiar geophysical location. The area is under further stress, as it provides the main access to the Historic Sanctuary of Machu Picchu (HSMP). The town has a poor record of protection by national and local institutions. The DRM work in Machu Picchu under this component would include an early warning system for flash floods, an evacuation plan, enhancement of medical facilities for trauma patients, selected public works for risk mitigation, public information campaigns, and regular drills for preparedness. This part of Component 3 would build on the diagnosis, feasibility study, and designs currently being financed under the Vilcanota I Project. Disaster risk management and preparedness needs in Cusco and the Vilcanota Valley would also be assessed during project preparation, and a program of investments – including the strengthening of essential structures, such as schools and hospitals – developed.

Component 4 – Improvement of the Pisac-Ollantaytambo Road (US\$42 million). This key road, which provides the main access route for tourists traveling along the Valley to and from Machu Picchu, was designed and built more than 30 years ago. Since that time, it has only

occasionally been repaired, while its traffic levels have skyrocketed, due to increased tourism in the Valley. This component provides for considerable improvements to the road; including the re-asphalting of more than 60 km., building of drainage infrastructure, and measures to enhance the safety of the many local pedestrians who routinely use it.

Component 5 – Access to Historic and Heritage Sites (US\$10 million). Access roads to key monuments around Cuzco and the Vilcanota Valley, such as Maras, Moray, and Tipón, will be paved or improved under this component. Better routes to these key archeological sites will make them easier to visit, diversifying options for tourists, and potentially lengthening their stays in the area – which is a key objective of the national and regional tourism authorities, as it directly boosts the local service economy.

Component 6 – Project Management, Studies, and Capacity Building (US\$6 million). This component will include project management support, institutional capacity building, and all studies to be undertaken under Vilcanota II. These studies will include comprehensive tourism planning to improve tourism-related services (e.g., tourist information offices), and to ensure pro-poor tourism development, so as to allow poor local communities (technically considered “Indigenous” under Bank safeguards policy) equitable access to the benefits from the business and job opportunities arising from tourism. Appropriate institutional arrangements for tourism development will be developed, in a dialogue with local municipalities, so as to avoid potential conflicts and overlapping.

4. Safeguard policies that might apply

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

Environmental Category: A - Full Assessment

5. Tentative financing

	(\$m.)
Source:	
Borrower	30
International Bank for Reconstruction and Development	40
Total	70

6. Contact point

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