



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 05-Oct-2020 | Report No: PIDC30297

**BASIC INFORMATION****A. Basic Project Data**

Country Peru	Project ID P174944	Parent Project ID (if any)	Project Name Peru Tourism Project (P174944)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date Dec 14, 2020	Estimated Board Date Mar 18, 2021	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Republic of Peru	Implementing Agency Ministry of Foreign Trade and Tourism (MINCETUR)	

Proposed Development Objective(s)

Support the post-COVID recovery of the tourism industry and strengthen destination development and management in selected provinces of Peru.

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	100.00
Total Financing	100.00
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	100.00
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Environmental and Social Risk Classification
Moderate

Concept Review Decision
Track II-The review did authorize the preparation to continue



Other Decision (as needed)

B. Introduction and Context

Country Context

Peru has experienced solid economic growth since 2010. Between 2010 and 2013 real GDP growth rate averaged over 6.7 percent, above the average for the South American region.¹ This strong economic performance resulted from the application of structural reforms and prudent macroeconomic policies.² However, since 2014, GDP growth rates have slowed to a little over three percent per year, mostly due to lower international commodity prices. This led to a temporary reduction of private investment, less fiscal income and a slowdown of consumption. Two factors attenuated the impact of this external shock on GDP, enabling continued growth, albeit at a slower pace. The first was the prudent management of fiscal, monetary, and exchange policies especially during the boom. This allowed the country to endure the decline in fiscal income without drastically adjusting spending and to have international reserves for an ordered adjustment of the exchange rate. Second was the surge in mining production as projects implemented during the previous years matured, which increased exports and offset the deceleration in domestic demand.³

The country has increased its dependence on extractive industries over the last 30 years. Dependency on copper and gold mining, as measured by contribution to GDP, has increased by about 50 percent. The mining sector represented 60 percent of total country exports, 60 percent of foreign exchange, and 12 percent of GDP in 2019.⁴ Nevertheless, the outlook for this industry is not as promising now as it was before, given the volatility in commodity prices and contracting external demand. The country's copper export volumes, for example, were down around 20 percent year-on-year in June 2020.⁵ **The decline of commodity prices has placed increased importance on economic diversification and the development of the services sector, including tourism.** Tourism presents a valuable opportunity to replace needed foreign exchange while at the same time generating jobs and incomes and spreading economic benefits more widely throughout the country.

Peru suffers from a substantial imbalance in the geographic concentration of economic activity, productivity, population, and institutional capacity. Lima accounts for almost 35 percent of Peru's population and about 65 percent of national GDP.⁶

¹ World Bank Group, Macro Poverty Outlook Update June 2020. Retrieved from: <http://pubdocs.worldbank.org/en/157051591373846452/mpo-table2-per.pdf>

² World Bank Group, Peru Overview. Retrieved from: <https://www.worldbank.org/en/country/peru/overview>

³ Ibid

⁴ Sociedad Nacional de Minería, Petróleo y Energía. Retrieved from: <https://andina.pe/agencia/noticia-actividad-minera-peru-represento-9-del-pbi-ultimos-diez-anos-763521.aspx> and Gerencia de Información y Análisis Económico Gerencia Central de Estudios Económicos, *Actividad Económica Febrero 2020. Abril 2020*. Retrieved from: <https://www.bcrp.gob.pe/docs/Publicaciones/Notas-Estudios/2020/nota-de-estudios-28-2020.pdf>

⁵ Economist Intelligence Unit, *Peru's Country Report August 2020*

⁶ Banco Interamericano de Desarrollo, *Estimación del PIB Departamental y Análisis de la Desigualdad Regional en el Perú: 1795-2017*. Retrieved from: https://publications.iadb.org/publications/spanish/document/Evoluci%C3%B3n_del_PIB_departamental_y_an%C3%A1lisis_de_la_desigualdad_regional_en_el_Per%C3%BA_1795-2017_es.pdf



Women in Peru face substantial barriers to employment and economic empowerment. Analyses conducted by the World Bank Group (WBG) in connection with the Systematic Country Diagnostic (SCD), the Country Partnership Framework (CPF) and by global benchmarking (Women, Business and the Law and World Economic Forum) reveal significant economic, financial and educational gender disparities in Peru. Within LAC, Peru ranks 17th for gender parity. Although women are participating in the labor force, they are likely to be earning less, have much lower educational achievement, and are more likely to be in informal businesses.

Peru has been extremely hard-hit by the COVID-19 pandemic, both from a health and an economic perspective. Peru currently has the highest number of COVID-19 deaths per 100,000 population—98 compared to 67 in the second hard-hit country (Bolivia).⁷ GDP is expected to contract by 12 percent in 2020, which is one of the largest predicted drops in the world.⁸ Interventions to curtail the spread of the virus are impeding domestic activity; lower commodity prices and contracting external demand are hurting investment and exports. Unemployment has increased from 3.6 percent in the second quarter of 2019, to 8.8 percent in the same period of 2020. At the regional level, the ILO predicts that around 41 million jobs will be lost, pushing regional unemployment levels to around 12 percent.⁹

Peru's development efforts are also challenged by the observed and anticipated impacts of climate change. Peru is highly vulnerable to climate change. Observed and projected climate change impacts include rising temperatures, extreme precipitation, and more frequent and severe occurrences of natural disasters, including flooding and droughts linked to the recurrent “El Niño” and “El Niño Costero” phenomena. Sea level is expected to rise 0.5 meters by 2100 posing additional threats to coastal urban populations. These changes are expected to impact people's health, ecosystems, and water availability, all linked to the tourism sector. Additionally, natural disasters affect tourism infrastructure. Floods and resulting mudslides weaken transportation infrastructure, road closures impede access to tourism destinations, particularly those most isolated, and heavy rains destroy cultural sites. Sea level rise could damage coastal infrastructure and can limit access to ports.¹⁰

Sectoral and Institutional Context

Tourism can be an important contributor to economic recovery, growth, sustainability, and inclusion in Peru. Tourism is labor intensive, generating disproportionately high jobs for women and youth and providing opportunities for female entrepreneurship. Many tourism jobs provide entry opportunities to formal employment and the chance to acquire essential basic skills. In addition, the tourism sector is supplied directly or indirectly by several industries (e.g. agriculture, construction, transportation, retail), creating job opportunities throughout the country and in rural areas. Tourism also has the potential to foster climate-friendly economic development, as tourists are increasingly valuing sustainability. While the industry has been extremely hard-hit by the COVID-19 crisis, it has historically been resilient to shocks such as natural disasters, political disturbances, and economic crises.

Prior to COVID-19, tourism demand was outpacing global economic growth. Worldwide, international tourism grew at an average of 5.6 percent p.a. between 2010 and 2019, compared to global economic growth of 3.8 percent p.a. over the

⁷ <https://coronavirus.jhu.edu/data/mortality>. Retrieved September 21, 2020.

⁸ World Bank (2020). *Global Economic Prospects, June 2020*. <https://www.worldbank.org/en/publication/global-economic-prospects>

⁹ International Labor Organization, Sharp rise in unemployment in Latin America and the Caribbean leaves millions without income. Retrieved from: https://www.ilo.org/caribbean/newsroom/WCMS_749692/lang--en/index.htm

¹⁰ WB Climate Change Portal and USAID climate change risk profile from: <https://www.climatelinks.org/resources/climate-change-risk-profile-peru>



same period.¹¹ While South America attracted over 35 million international visitors in 2019, its share of total global international visitor flows is quite small at 2.4 percent; nevertheless, its share of international tourism has been growing in line with global growth rates.

In the ten-year period between 2009 and 2019, Peru's international tourism experienced significant growth, performing well above the regional trend. International arrivals to Peru more than doubled, from about 2 million to almost 4.4 million, growing at more than double the global and regional growth rates. Expenditures by international tourists have followed a similar pattern, growing from US\$2 bn to US\$3.9 bn. This has enabled Peru to increase its share of regional arrivals from 9.8 percent to 12.4 percent over the same period. Key markets for Peru are Chile (27 percent), the USA (15 percent), and Ecuador (8 percent). Peru's unique cultural and historic offering, economic integration with global markets, a gastronomic boom, the arrival of low-cost airlines, and successful tourism promotion have all contributed to this growth. Important tourist attractions include the city of Cuzco, historical centers of Lima and Arequipa, Historic Sanctuary of Machu Picchu, Lake Titicaca, Cordillera Blanca, Manu, Amazon River, and others. Several are recognized by UNESCO as World Heritage Sites. Machu Picchu was voted one of the new Seven Wonders of the World in 2007 and the World's Leading Tourist Attraction in 2018. Moreover, Peru has appeared in several go-to destinations lists including Bloomberg's *Where to go in 2017*, The New York Times "must see" of 2017 and, for the eight-consecutive year Peru was named the World's Leading Culinary Destination at the World Travel Awards in 2019.¹²

Peru's domestic tourism trends are also promising. Domestic tourism increased from 22.5 million domestic arrivals in 2009 to nearly 55 million in 2019.¹³ Compared to other countries in the region, this is a high number of domestic trips per capita (Figure 1). Based on data collected from lodging establishments, about 85 percent of arrivals are Peruvians and 15 percent are foreigners.¹⁴ As a result of the domestic and international tourism growth, the sector's contribution to the economy in terms of GDP and employment has steadily increased in absolute terms. The direct contribution from travel and tourism to GDP was US\$ 9 billion in 2019. The sector is estimated to generate almost 410,000 direct jobs.¹⁵ When indirect employment is included, tourism accounted for approximately 1.2 million jobs in 2019. On the other hand, the direct contribution of tourism as a share of GDP and employment has been more-or-less flat¹⁶, suggesting that there is untapped potential to translate tourist numbers into more revenue and jobs.

Peru has the potential to capitalize on this demand and develop a world-class tourism industry, leveraging its rich tourism endowments in a planned, sustainable manner. Peru has a rich array of natural and cultural endowments that form the underlying draw for visitors. The World Economic Forum (WEF)'s Travel and Tourism Competitiveness Report 2019 ranked Peru 13th (out of 140 countries) for its natural resources and 27th for its cultural resources and business travel, capturing the principal reasons to travel. However, Peru's tourism industry is not yet operating at a level consistent

¹¹ UNWTO International Arrivals 2009-2019, analysis by author and IMF, Real GDP Growth 2009-2019. Retrieved from: https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

¹² Oxford business Group, *Peru's fast-growing tourism sector shows no signs of slowing down*. Retrieved from: <https://oxfordbusinessgroup.com/overview/taking-one-fastest-growing-sectors-shows-no-signs-slowing-down>; and Schaaf, Ellen, "Tourism in Peru: Meeting the Future" (2017). Volume 35 - Leveraging Peru's Economic Potential (2017). 3. <https://preserve.lehigh.edu/perspectives-v35/3>

¹³ UNWTO, Compendium of Tourism Statistics 2020. And UNWTO, Compendium of Tourism Statistics 2010

¹⁴ Data from 2016-2018, Instituto Nacional de Estadística e Informática (INEI), based on MINCETUR data. <http://m.inei.gob.pe/estadisticas/indice-tematico/turismo-11176/>

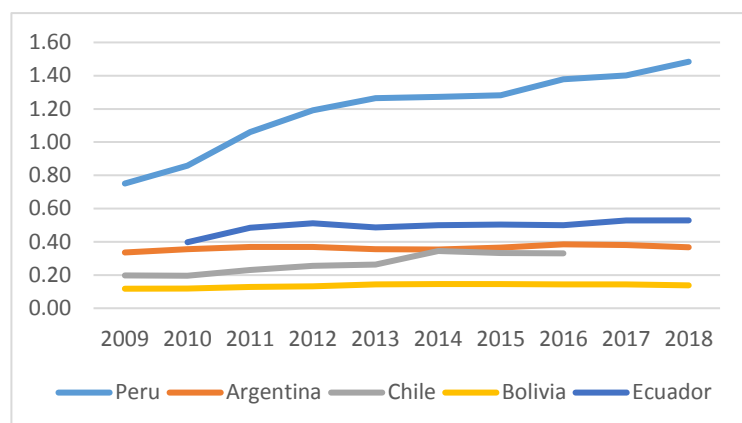
¹⁵ World Travel and Tourism Council, Data Gateway. Retrieved from: <https://tool.wttc.org/>

¹⁶ The direct contribution of tourism to GDP was 3.9 percent in 2019, compared to 4.0 percent in 2009. The contribution to employment was 2.4 percent, compared to 2.5 percent.



with its endowments. Safety and security (118th), ground and port infrastructure (107th) business environment (100th), ICT readiness (95th) and health and hygiene (93rd) remain key challenges for the sector (Table 1).

Figure 1. Regional comparison of arrivals of domestic tourists to accommodation services per capita



Source: UNWTO, Compendium of Tourism Statistics 2010 and 2020.

Table 1. Peru Tourism Competitiveness

Travel & Tourism Competitiveness Index	2017	2019
Peru's overall rank	51	49
Enabling environment		
Business environment	83	100
Safety and security	108	118
Health and hygiene	91	93
Human resources and labor market	62	72
ICT readiness	79	95
T&T policy and enabling conditions		
Prioritization of Travel and Tourism	69	72
International openness	12	8
Price competitiveness	127	82
Environmental sustainability	73	47
Infrastructure		
Air transport infrastructure	73	68
Ground and port infrastructure	109	107
Tourist service infrastructure	45	31
Natural and cultural resources		
Natural resources	4	13
Cultural resources and business travel	24	27

Source: WEF, 2017/2019.

Women are particularly active in the tourism sector, but they face important challenges that make their businesses less competitive. According to the World Bank Enterprise Survey (2017/8), there is female participation in ownership of 60 percent of businesses in the sector, and around 70 percent of businesses in the sector are *led* by a woman.¹⁷ However, if only those (formal) businesses where the top manager is a woman are considered, the percentage is only 29 percent. The survey also indicates that female-led businesses in the sector make *less* use of IT technologies, their businesses are smaller, and they are less likely to have a line of credit than male-led businesses. As a result, the COVID-19 crisis has particularly impacted women-led tourism businesses.

Despite past growth and the variety of tourism attractions across the country, visitor distribution remains heavily concentrated in Lima and Machu Picchu (Cusco). They have come to be synonymous with Peru. Of the TripAdvisor top-ten attractions in the country, five are in Cusco and three are in Lima. Although there are differences between the individual shares of domestic and international visitors, together more than 50 percent of all tourists visit Lima. Machu Picchu, on the other hand, is mainly an international destination. A quarter of all international tourists visit the area while less than 3 percent of domestic tourists do so. With the exception of Callao (which is part of the Lima metropolitan area), La Libertad, and Arequipa, no other region receives more than 3 percent of domestic travelers. The same is true for international visitors, with only Arequipa and Puno receiving more than 4 percent of tourists.¹⁸ This concentration has led to “overtourism” in key destinations such as Machu Picchu.¹⁹ Overcrowding in “honeypot” destinations can lead to the

¹⁷ Female-led refers to businesses where either the top manager is a woman, or there is a female among the owners who owns at least one third of the business.

¹⁸ Based on arrivals to accommodation establishments per region. MINCETUR, Arribo de visitantes extranjeros/nacionales a establecimientos de hospedaje, según región <http://datosturismo.mincetur.gob.pe/appdatosTurismo/Content3.html>

¹⁹ Overtourism, as defined by UNWTO's collaborating universities is “the impact of tourism on a destination, or parts thereof, that excessively influences perceived quality of life of citizens and/or quality of visitors experiences in a negative way”. UNWTO, *Overtourism? Understanding and Managing Urban Tourism Growth beyond Perceptions*. Retrieved from: <https://www.e-unwto.org/doi/pdf/10.18111/9789284420070>



alienation of local residents, overloaded infrastructures, damages to nature, threats to cultural heritage, and reduced quality of the tourist experience.²⁰ This in turn reduces the destination's capacity to attract high spending guests.

Peru is not attracting sufficient investment to translate underlying demand and high-quality endowments into its potential for jobs and incomes. Private sector investment and consequent job creation are hampered by systemic coordination failures in the public and private sectors that create information asymmetries and hold back investments. Further, a lack of public sector capacity, poor planning and burdensome bureaucracy has led to a lack of public sector investments such as road infrastructure and urban amenities needed to de-risk private investment. Additional challenges include limited knowhow on destination planning, management and marketing among regional tourism institutions. Lack of funding, excessive bureaucracy, deficient investment strategies, lack of destination coordination, and lack of incentives have caused investments in private and public infrastructure to stall. These weaknesses have been brought into sharp focus by the current significant demand uncertainty resulting from COVID-19. It will be critical to address the public/private coordination failures and the urgent needs arising from COVID-19, while carefully assessing selected public works to create jobs and unlock critical investment.

The country's tourism ecosystem is also characterized by high levels of informality and low-quality service delivery. There is currently a lack of data around informality, but from what is available, it appears that about 43 percent of the added value of the tourism sector (restaurants and hotels) comes from the informal sector, compared to only 18 percent for the overall economy.²¹ Nationwide, micro, small, and medium enterprises (MSMEs) constitute 99.5 percent of Peruvian firms and account for 90 percent of employment in the private sector (INEI). In tourism, these small firms lack digital skills, market knowhow, and an understanding of standards needed to elevate service provision and increase productivity. The growth of MSMEs is also hindered by red tape related to construction permits, operating permits, taxes, salaries, and other regulations, and is compounded by poor destination management and marketing capabilities.

COVID-19 has had devastating effects on Peru's tourism industry. In Peru and around the world, tourism is arguably the sector hardest-hit by the COVID-19 economic crisis. International arrivals to Peru during the first eight months of 2020 were only 28 percent of arrivals during a similar period of 2019.²² There have been no arrivals since the government's decision to close the borders and suspend international flights in mid-March 2020. Although no impact study has been prepared, the National Chamber of Tourism estimates that more than 50,000 tourism firms have closed and about 500,000 jobs have been lost in the first eight months of 2020. This situation might worsen, and it is estimated that around 80,000 tourism firms will close, 800,000 people will lose their jobs, and US\$10 billion in revenue will be lost.²³ Domestic tourism restarted in July after four months, but restrictions still exist, with four departments (Cusco, Moquegua, Puno and Tacna) and 46 provinces under strict quarantine. On a positive note, the number of tourists from the domestic market prior to the COVID crisis (as cited above) give an indication of the potential for the reactivation of domestic tourist flows during 2021. **A well-managed domestic visitor sector can significantly contribute to the COVID-19 recovery and impact "shared prosperity".**

²⁰ WTTC and McKinsey & Company, Coping with Success. Managing overcrowding in tourism destinations. Retrieved from: <https://www.mckinsey.com/~media/mckinsey/industries/travel%20transport%20and%20logistics/our%20insights/coping%20with%20success%20managing%20overcrowding%20in%20tourism%20destinations/coping-with-success-managing-overcrowding-in-tourism-destinations.ashx>

²¹ Instituto Nacional de Estadística e Informática, Producción y Empleo Formal en el Perú – Cuenta Satélite de la Economía Informal 2007-2018. Retrieved from: https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1701/libro.pdf

²² <http://datosturismo.mincetur.gob.pe/appdatosTurismo/Content1.html>. Retrieved September 21, 2020.

²³ Canatur, "No existe reactivación económica ya que FAE-Turismo aún no funciona". August 13 2020. <https://portaldeturismo.pe/noticia/canatur-no-existe-reactivacion-economica-ya-que-fae-turismo-aun-no-funciona/>



Past crises have shown tourism to be a resilient industry. The desire to travel both domestically and regionally is high, and when restrictions are lifted, demand for travel can be expected to rebound. However, there will be adjustments. Demand is changing with an increasing focus on health and hygiene, increased nature-based tourism, and less emphasis on business, events, and indoor activities. Business models are changing due to consolidation and corporate restructuring, and there is increasing reliance on automation, innovation, and technology. Short- and medium-term recovery plans will need to reflect these changes. As tourism recovers, it will be different and more competitive. While Peru is well placed to capitalize on some of these trends (such as adventure and outdoor tourism, more remote travel and increased emphasis on authenticity), unlocking private investment will be essential for Peru to remain competitive and for tourism to continue to provide inclusive and sustainable growth.

The Peruvian government is working on a series of measures to help the tourism private sector.²⁴ The VAT system has been modified to grant a recovery of VAT on goods and services for construction projects linked to tourism and to allow debt payment deferrals. A US\$140 million Tourism Business Support Fund (*Fondo de Apoyo Empresarial, FAE Turismo*) has been created to support the recovery of formal tourism firms through guarantees. These are supposed to finance working capital for micro and small firms, and the fund is expected to leverage private credits of about US\$422 million. In addition, the *Turismo Emprende* program is supposed to offer matching grants from US\$16-28k to finance payment to suppliers, improvements to digital skills, and the application of health and hygiene protocols.²⁵ Through the Tourism Quality program (CALTUR), there are coordination efforts to develop a biosafety certification for tourist services and a national recognition called “Safe Tourism” (*Turismo Seguro*) for tourist destinations. Peru is also participating in the World Travel and Tourism Council’s (WTTC) Safe Travel stamp initiative. Despite this assistance, many gaps in management and infrastructure need to be filled to speed recovery.

Since 2018, the IFC has been supporting MINCETUR with technical assistance to address specific issues in the country’s management and development of tourism. These include planning for new destinations, upgrading tourism statistics collection systems, identifying and helping unlock potential stalled sectoral investments, assessing and improving the national-level tourism regulatory framework, and redeveloping the Single Window for tourism business licensing and registration. Among other things, the Single Window will help the sector to go digital and promote formalization. (Approximately 80 percent of the tourism sector is currently informal.) The work also includes a survey of MSMEs in tourism assessing constraints to business development that are disaggregated by gender. This work, which continues in parallel to project development, will provide a solid analytical foundation for further investment through this Project and enable the identification of specific gender gaps to be filled by the Project activities and monitored through the Project results framework.

Peru faces long term institutional and regulatory constraints that limit its ability to manage the present crisis and position it for long term recovery. Five key constraints contribute to Peru’s current tourism growth and competitiveness challenges: (i) lack of inter-ministry/agency, central-local and public-private coordination and weak implementation capabilities for tourism development in general, and for managing sustainable destination development including monitoring and preservation of natural and cultural assets; (ii) continued poor quality of public infrastructure and services for citizens, visitors, and businesses; (iii) limited tourism workforce skills, finance, and inadequate private-sector tourism services and facilities outside the two main destinations of Lima and Machu Picchu/Cusco; (iv) high levels of informality across the sector, which generate health, sanitary and quality of service risks to tourists; and (v) a weak enabling

²⁴ All measures listed were presented by the President of the Council of Ministers in his speech on August 3rd, 2020.

²⁵ Base de Concurso Turismo Emprende, Retrieved from: <http://turismoemprende.pe/>. Participation of women and/or vulnerable populations are one of the criteria to be considered in the proposals, but it is the criteria with the lowest weighting.



environment for private investment and business entry. Together, these have resulted in weak supply side development, lack of investment and lack of diversification—all of which limit competitiveness, productivity and future growth. This is now compounded by the severity of the COVID-19 shock, which puts past gains at risk. The crisis has highlighted the country's dependence on tourism, while bringing its institutional weaknesses into sharp focus. Addressing these constraints in a comprehensive, integrated, and incremental manner is therefore key to unlocking Peru's potential to develop a world-class tourism industry.

The COVID-19 pandemic requires an urgent response to protect past gains, while also presenting an opportunity to address key challenges to growth and build a stronger, more sustainable and resilient tourism economy. Peru needs to follow a two-track strategy: (i) a rapid response short-term recovery plan to enable destinations to reopen quickly and tap available sources of demand to secure employment and generate incomes; and (ii) accelerate the development of a wider set of new destinations to attract emerging markets, build competitiveness, increase tourism expenditures, and spread the benefits of tourism beyond the existing concentrations.

Relationship to CPF

The proposed Project is closely aligned with multiple pillars of the WBG - Peru FY17-FY21 Country Partnership Framework (CPF). The strongest alignment is with the first CPF pillar, "Productivity for Growth". Objective 4 of the first pillar—"Enhance the environment for sustainable private investments"—is supported by all project components. Other objectives supported within the first CPF pillar include: 3) "Facilitate absorption of skills and technology especially by small and medium enterprises (which will be done through support to tourism businesses in selected destinations under Component 2 of the Project; 2) "Ease barriers to formalization" (which will be done through the single window for tourism licenses and permits under Component 3); and 1) "Improve connectivity at critical corridors of the territory" (which may be done somewhat through improvements to access roads at selected tourist destinations under Component 1). The Project also supports the third pillar of the CPF: Natural Resource and Climate Change Risk Management, as it aims to reduce the climate vulnerability of the tourism sector, including through building climate change and disaster resiliency into sector strategic planning and infrastructure investments. Finally, the Project aims to reduce gender disparities, which is a cross-cutting objective of the CPF.

The proposed Project is aligned with the WBG's Maximizing Finance for Development (MFD) approach. The Project's infrastructure investments, skills development, capacity building and investment planning initiatives will address the binding constraints that have stalled key tourism-enabling private investments. At the same time, indications from investors confirm that regulatory constraints, poor planning and capacity for destination management, and infrastructure deficiencies limit private investors' interest in moving forward with investments in these destinations as they involve higher costs, more uncertainty and greater risk. The proposed Project therefore aims to promote private investment through needed regulatory reforms and enabling public investments.

C. Proposed Development Objective(s)

Support the recovery of tourism in Peru through strategic public investments in visitor management, destination development and business environment reforms to mobilize private investment in selected destinations.

Key Results (From PCN)



- Number of domestic, regional (from neighboring countries), and international tourists in project-supported destinations
- Value of private investment in the tourism sector in project-supported destinations
- Number of beneficiaries of improvements to tourism-relevant infrastructure and services
- Number of tourism businesses that develop an online presence (with project support)
- Number of tourism businesses that are awarded a safe tourism seal or stamp
- Time required to obtain operating permit for a tourism business
- Number of destination development plans prepared
- Number of coordination platforms established (e.g. destination management organizations, task forces)
- Gender indicator TBD, depending on the specific gender gap to be tackled, e.g. number of women entrepreneurs using registration services through the Single Window for Tourism

D. Concept Description

The Project is designed to deal with both immediate COVID-19 responses and longer-term recovery and competitive positioning of selected destinations in an integrated way. A phased approach will be used, in which short-term development will focus on domestic tourism, and medium- and long-term development will focus on mobilizing key public investments, attracting private sector investment, and increasing value from international tourism. Both phases will be supported by institutional strengthening to build a competitive, sustainable, and resilient tourism sector. Additional support for regulatory reforms and the mobilization of private investment will be delivered through a parallel IFC advisory project that supports the Ministry of Foreign Trade and Tourism (*Ministerio de Comercio Exterior y Turismo*, MINCETUR) to develop targeted investor outreach, promotion, facilitation, tracking and aftercare programs. This may be paired with direct support to private investments by IFC, where appropriate.

The Project will require significant capacity building and knowledge transfer to MINCETUR and other units in delivering a coordinated and integrated approach to destination development. As such, the investment executed under this IPF for selected destinations is expected to serve as a blueprint for many other destinations in the future.

Component 1. COVID-19 short-term tourism recovery program

This component will support the government's short-term tourism recovery efforts through the selection, upgrading, and improvement of a small number of priority tourism destinations that have the potential to drive domestic demand and (re)generate jobs in the short-term. Investments will focus on softer, easily implemented activities²⁶ to ensure readiness to receive visitors as travel starts to recover from the COVID-19 crisis in 2021. As such, most activities would be expected to be undertaken between April and December 2021.

An initial list of destinations, to be agreed with the borrower, will be evaluated based on an agreed set of criteria including new patterns of demand, the economic importance of tourism to the location, health and safety, and attractiveness for rapid reactivation.

²⁶ These types of investments likely correspond to the "*Inversiones de Optimización, de Ampliación Marginal, de Rehabilitación y de Reposición*" (IOARR) classification within the Ministry of Economy and Finance's (MEF) public investment system (Invierte.pe).



Once the high priority destinations are selected, support activities will be identified and evaluated in partnership with the government and in consultations with tourism industry representatives and local communities, including women's groups and indigenous people where appropriate. A Rapid Recovery Action Plan (RRAP) will be agreed on for each destination including a program of activities and investments that will build confidence, facilitate the return of tourists, and support hard-hit local communities. The aim of the RRAPs would be to identify quick and coherent set of rapid action interventions, rather than larger infrastructure works that could take longer to be implemented. RRAP activities could include, among other things:

- i. Investments in public facilities to meet new health and hygiene protocols and facilitate visitor management and social distancing, e.g. equipment, remodeling, repurposing, signage, queue and trail barriers, etc.
- ii. MSME training to digitize and adopt protocols, health and safety support systems, disaster risk management plans, etc. (This would complement support expected to be provided through the government's *Turismo Emprende* and Tourism Quality programs.)
- iii. Marketing, communication, and reopening promotion activities emphasizing safe practices.
- iv. Activities to generate temporary employment, e.g. cleaning, maintenance, and minor upgrading of tourist sites.

These investments could help destinations and firms to receive and maintain the safe tourism certifications and stamps referred to in the previous section. Investments will include energy efficiency measures (e.g. energy efficient lighting, appliances, etc.) and increase climate change resiliency through their design whenever possible, as well as enhance access for those people with disabilities. A specific focus will be placed on women-owned tourism businesses, which are at higher risk from the crisis.²⁷

Component 2. Support for medium-term tourism diversification, competitiveness and sustainability

The COVID-19 crisis provides the opportunity for Peru to also accelerate the diversification of its tourism offer to respond to new changes in demand while addressing structural weaknesses. The activities under this component will support the recovery of the tourism sector through building the competitiveness, sustainability and resilience of selected new medium-term high priority destinations.

Specifically, this component will promote the development of a small number of selected destinations through facilitating new and diversified tourism products and services and mobilizing critical public and private investment. Similar to Component 1, prospective destinations will be selected in consultation with the public and private sector (including men and women from local communities) and based on agreed evaluation criteria. Criteria are expected to cover: i) demand/product; ii) access; iii) cost and economic impact and investment potential; iv) urban and tourism planning; and v) environmental, social, health, and sustainability aspects.

This component will support:

- i. Capital works for key public investments needed to broaden the appeal of the selected destinations to new tourism markets, including repositioning and strengthening destination competitiveness, sustainability and

²⁷ For example, training offered by the program may consider personal initiative, which teaches women entrepreneurs to be proactive and demonstrate perseverance. This may help them to bounce back from the economic ramifications of COVID-19. The training could be a key tool to promote investments, decrease risk aversion, and increase worker productivity during crisis recovery. Depending on mobility restrictions, the training could take place virtually.



resilience.²⁸ Similar to Component 1, these investments are expected to incorporate good international practices with respect to energy efficiency and climate change resiliency²⁹, as well as enhance access for people with disabilities. Examples include last mile infrastructure development such as improved access roads, improved trails, refurbished visitor centers, climate resilient utilities (energy, water), signage programs, restrooms, etc.

- ii. Business training and small grants to assist tourism businesses to enhance their product development and competitiveness. This may include, for example, enhancing digital skills for entrepreneurs in the sector, particularly women-led tourism businesses (which according to the Enterprise Survey seem to make less use of IT resources, such as business email and/or a website, than their male counterparts). Training modules related to preparedness and business continuity planning for potential future crises, climate change-induced or otherwise, may also be included. While the bulk of support would be expected to go to upgrading existing tourism businesses, there could also be special programs to support the identification and start-up of new tourism businesses.

Component 3. Strengthening business environment and institutional capacity and project management (\$15m)

This component will boost public sector capacity and address business environment issues to facilitate the development of the tourism sector in an integrated and sustainable manner. Activities will focus on addressing key business environment and institutional weaknesses such as high informality, particularly amongst women-led businesses. (The MSME survey is expected to shed more light on informality and other challenges faced by female and male entrepreneurs in the sector). These issues are essential for short term recovery as well as the development of medium and long-term competitiveness.

This component will be delivered in parallel with Components 1 and 2 and will support the public sector to:

- i. Enhance the enabling environment for private investment and business entry in tourism through the redevelopment of a digital one-stop tourism window (Ventanilla Única de Turismo, VUT³⁰). The VUT would provide tourism service providers the opportunity to electronically obtain permits, certifications, categorizations, licenses and other authorizations required by the competent entities, linked to the tourist activity.³¹ Implementation of the VUT can be paired with business training in Component 2 to encourage formalization. The VUT will also improve data about informality in the sector, including the gender of business owners using registration services through the system.
- ii. Establish new and strengthen existing mechanisms and protocols to increase institutional coordination and provide capacity building to national, regional and local governments for planning and execution of projects at the national and regional levels. This could involve support to MINCETUR's Vice-Ministry of Tourism to develop and implement its cross-cutting strategies (*estrategias transversales*).
- iii. Create/improve destination management organizations³² and upskill regional authorities to improve destination management. Destination management organizations would be public-private organizations expected to manage, monitor and market the priority destinations chosen under Components 1 and 2. Monitoring could

²⁸ These could correspond to medium complexity projects within the MEF's Invierte.pe system.

²⁹ For example, any road upgrading works would be expected to make the road more climate resilient and less vulnerable to flooding and extreme weather events.

³⁰ The design of the Ventanilla Única de Turismo has been supported by a complementary IFC Advisory Services Project.

³¹ This could cover procedures related to applying for special tax regimes (e.g. *Régimen Especial de Recuperación Anticipada del Impuesto General a las Ventas*, RERA IGV), declaring a project to be of national interest for the purchase of state assets, tourist concessions in protected natural areas, and others.

³² A legal framework may be required for the self-sustainability of the destination management organizations.



include the development of sustainable tourism indicators, as well as the implementation of digital visitor surveys for destination-based information, possibly supported by a “tourism observatory”. (This data collection could help implement forthcoming recommendations that the UNWTO is providing in conjunction with the IFC tourism advisory work.) The establishment of destination management organizations also offers an opportunity to promote gender equality in the sector: on one hand, these new organizations could offer a space to give voice to women entrepreneurs; and on the other hand, they offer an entry point for women to occupy leadership positions in decision making structures.

- iv. Implement the Project, including management of all technical, fiduciary, environment, and social issues. This could include the creation of a Project Implementation Unit or equivalent.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	TBD
Projects in Disputed Areas OP 7.60	No
Summary of Screening of Environmental and Social Risks and Impacts	

The Project’s Environmental and Social Risk Classification is Moderate. The classification is mainly based on the scope and the potential location of the small to medium scale infrastructure interventions under Component 1 and Component 2, as well as on the Borrower’s limited institutional capacity for the adequate management of environmental and social health and safety (ESHS) issues. The main potential environmental and social risks and impacts include: (i) overall nuisances to communities due to noise and vibration, dust, waste, and visual disturbances; (ii) poor working conditions and risk of third-party and occupational accidents; (iii) inadequate handling and disposal of waste; (iv) potential impacts on chance archaeological finds during earthworks, as well as on other cultural assets; (v) potential degradation of natural aquatic and/or terrestrial habitats due to civil works; (vi) physical and economic impacts caused by land acquisition and/or restrictions on land use; (vii) potential impacts on indigenous peoples; (viii) social and economic impacts generated by project works; and ix) impacts associated with GBV.

The proposed classification also considers potential indirect and cumulative risks and impacts stemming from an increase of tourism in Natural Protected Areas (NPAs) and/or cultural heritage sites during operation of Component 2 interventions, beyond the areas’ carrying capacities. Also, there are potential community health risks from an influx of tourists amidst the current COVID-19 pandemic, in destinations with a lack of appropriate or enough health care infrastructure and services. Main ESHS risks and impacts will be further evaluated/confirmed during due diligence, once the final set of destinations is determined and menu of potential specific interventions is further developed.

The Borrower will develop the necessary instruments to adequately manage potential Project ESHS risks and impacts, including an Environmental and Social Management Framework (ESMF), a Stakeholder Engagement Plan (SEP), a Resettlement Framework (RF), an Indigenous Peoples Policy Framework (IPPF), and a Labor Management Procedure (LMP). All of them will be disclosed in draft version prior to Appraisal. The ESMF will set out the principles, guidelines and procedures to assess the ESHS impacts and risks of each intervention, in compliance with both national requirements and



the ESF, and will include, among other things: an Exclusion List with the set of interventions that will not be financed due to their potential significant risks; a robust tool and procedure for the screening, review and approval of infrastructure interventions; E&S Management Guidelines for the development of site-specific ESMPs; among others.

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