

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

Report No. 54205

<b>Project Name</b>	VILCANOTA VALLEY PROTECTION AND DEVELOPMENT PROJECT (VILCANOTA II)
<b>Region</b>	LATIN AMERICA AND CARIBBEAN
<b>Sector</b>	General Transportation sector (30%), Solid waste management (30%); Flood protection (20%); Sub-national government administration (20%).
<b>Project ID</b>	P117318
<b>Borrower(s)</b>	THE GOVERNMENT OF PERU
<b>Implementing Agency</b>	COPESCO Plaza Tupac Amaru s/n Distrito Wanchaq Cuzco Peru Tel: (51-84) 581540 Fax: (51-84) 236-712 <a href="mailto:frodriguez@copesco.gob.pe">frodriguez@copesco.gob.pe</a>
<b>Environment Category</b>	[X] A [ ] B [ ] C [ ] FI [ ] TBD (to be determined)
<b>Date PID Prepared</b>	April 16, 2010
<b>Estimated Date of Appraisal Authorization</b>	October 31, 2010
<b>Estimated Date of Board Approval</b>	March1, 2011

## 1. Key development issues and rationale for Bank involvement

1. **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, these figures actually 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).

2. **In spite of its good recent performance, Peru still lags behind its neighbors in terms of infrastructure investment needs and quality gaps.** Peru ranked 19<sup>th</sup> out of 23 LAC countries in a 2008 infrastructure ranking.<sup>1</sup> In response to the financial crisis, and 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

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

out by sub-national governments. In this connection, the major 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 designed to help address these key challenges.

**3. 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 Peru<sup>2</sup> 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 by other sectors (e.g., agriculture, manufacturing, or mining). For every 1% increase in the relative importance (as the percentage of total workers) of hotels and restaurants, there is a 9.9%, decrease in total poverty, while for every 1% increased in the relative importance of the mining sector, a reduction in total poverty of only 0.4% is reached.

**4. 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 deficiencies in infrastructure and services, Cusco and the Vilcanota Valley – Peru’s chief 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 risks 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 unable to meet rapidly growing demands.

**5. In 2004, the 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 series of factors – including a mismatch between the expectations raised by the Project and its insufficient resources, the limited capacity of the executing agency, and an overly complex project design – the Project experienced significant delays during the 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, to transfer the execution of most components from the central government to the Cusco Regional Government, through its implementing agency COPESCO, and to strengthen capacity and institutional arrangements for the planning and implementation of future investments at the regional level. Since the

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

restructuring, Project implementation has greatly improved, with Implementation Progress currently rated Moderately Satisfactory.

**6. 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 caused major damage to key infrastructure (such as roads and the railway, which is the only access route to Machu Picchu), damage to historic structures, loss of crops, and the death of as many as 20 local residents. 3,600 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 preparedness, as a key component of any future intervention.

**7. 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 builds on the work already begun under Vilcanota I to enhance its capacity to identify, prepare, and implement infrastructure investments at the regional level.

**8. 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 of Peru's decentralization efforts. 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. This effort complements other initiatives of the World Bank Group, such as PPIAF/SNTA-financed technical assistance to the Regional Government of Cusco and the IBRD-IFC Sub-national Guarantee Facility.

**9. 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 Project. The Regional Government would assume responsibility for implementation in direct relationship with the Bank, and would repay the loan to the national government.

## **2. Proposed objective(s)**

10. **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 will 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 and related 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 preserving 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 the following:

11. **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 vibrations and pollution from the heavy traffic crossing it daily. The proposed bypass would divert commercial and tourism-related traffic, allowing for monument preservation, pedestrian safety, pollution reduction, and improved traffic circulation, as well as making the center more walkable and pleasant for tourists and residents alike. This component will build on the diagnosis, feasibility studies (including the Environmental Impact Assessment, or EIA), and designs currently being financed under the Vilcanota I Project.

12. **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 will build on the diagnosis, feasibility studies (including the EIA), and designs currently being financed under the Vilcanota I Project, to support the implementation of a new regional system of solid waste collection, transportation, and disposal.

13. **Component 3 – Disaster Risk Management and 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 the main access to the Historic Sanctuary of Machu Picchu (HSMP). The town has a poor record of protection by national and local institutions. Building on the work begun under Vilcanota I, the DRM work under this component will 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 preparedness drills, etc. This part of Component 3 will 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 broader Vilcanota Valley will also be assessed during project preparation, and a program of investments developed, including the strengthening of essential structures, such as schools and hospitals.

**14. Component 4 – Improvement and Access to Historic and Heritage Sites (US\$16 million).** Important heritage sites around Cuzco and the Vilcanota Valley, such as Maras, Moray, Tipón, Huchuy Qosqo and Patapata, will receive restoration works under this component. Also, pedestrian pathways and access roads to these monuments will be paved or improved. Better preservation and better access will make these archeological sites more attractive and easier to visit, diversifying options for tourists and potentially lengthening their stays in the area. This is a key objective of the national and regional tourism authorities, as it directly boosts the local service economy.

**15. Component 5 – 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 services for tourists (e.g., tourist information offices), and to ensure pro-poor tourism development, so as to allow poor local communities to equitably participate in the benefits of the business and job opportunities arising from tourism. Appropriate institutional arrangements for tourism development will be developed in dialogue with local municipalities, so as to avoid potential conflicts, redundancies, and overlap.

#### **4. Safeguard policies that might apply**

<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)	[ ]	[ ]
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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