1. Country and Sector Background
The Vilcanota Valley Rehabilitation and Management Project (the Project) was originally approved by the Board of Directors on November 14, 2004 and became effective on May 13, 2005. However, the Project is currently undergoing a Project Restructuring (the Restructuring) mainly due to: (i) overall Project implementation delays; (ii) processing delays at the central government level; and (iii) the opportunity to decentralize and transfer specific Project components from the central government to the Cusco Regional Government (GRC) through its executing agency Comisión para Coordinar y Supervigilar el Plan Turístico y Cultural PERU-UNESCO (COPESCO). This updated Project Information Document (PID) puts forth the modifications in project components and Bank safeguard policies that comprise the Restructuring.

The key proposed changes are to: (a) transfer from the Ministry of Foreign Trade and Tourism (MINCETUR) to the GRC the execution of several specific components; (b) mainstream and simplify Project implementation procedures; (c) reallocate funds among disbursement categories so as to better reflect modifications of certain Project components; (d) extend the Project closing date by 24 months; (e) strengthen institutional counterpart capacity for managing project fiduciary and safeguard responsibilities, and (f) modify the Project’s outcome indicators.

Preparation for the Restructuring has involved intensive stock-taking, including: (i) a review of the original loan preparation safeguards instruments and financial studies, including the Sistema Nacional
The Ministry of Economics and Finance’s economic analysis tool); (ii) an assessment of COPESCO and MINCETUR’s current capacity to undertake their proposed fiduciary and safeguards responsibilities; (iii) a review of past consultation and analysis of future consultation needs with the population; and (iv) a restructuring of the institutional relationships and responsibilities with regard to Bank policies on Financial Management, Procurement and Safeguards.

The Project was not originally included in the 2002 – 2006 Country Assistance Strategy but rather, was designed in response to recommendations made by UNESCO in 2004 cautioning the Government of Peru (GoP) that mismanagement of tourism in the Historic Sanctuary of Machu Picchu (HSMP or the Sanctuary) could lead to the Sanctuary’s removal from the list of World Heritage Sites. At the time, the country’s debt ceiling limited the loan to US$ 5 million, which, in hindsight was too small an amount as compared to demands of the original Project scope. To mitigate the risk posed by the insufficient resources, the Project’s original focus was two-pronged: 1) investment in strategic studies that would establish a basis for future investments and 2) investment in a wide range of works aimed at leveraging other resources from key partners including global institutions, such as UNESCO and the National Geographic Society (NGS), as well as local communities and municipal and regional authorities. This Restructuring moves this agenda forward by scaling back the range of investments and focusing on delivering the more chief results on the ground.

2. Objectives
The Project Development Objective (PDO) is to support the GoP’s efforts to enhance the environmental and socio-economic sustainability of historical, cultural and ecological assets in the Vilcanota Valley including the HSMP and the Sacred Valley of the Incas.

The PDO will be attained through:

(i) consultation among local stakeholders to establish a shared vision for the future of the Vilcanota Valley and to ensure that project design and implementation reflect community priorities;

(ii) capacity building of municipalities, communities and firms in tourism support services, municipal financial management, urban service provision, disaster prevention and local economic development;

(iii) technical studies for future small-scale infrastructure and urban services investments (including storm water drainage, on-site sanitation and solid waste management), and the financing of a selected number of these; and

(iv) capacity building in services and management, and the provision of tourism-related infrastructure.

3. Rationale for Bank involvement
The Vilcanota River Basin includes the HSMP, heavily used sections of the Inca Trail, and settlements from Santa Teresa at the downstream western tip of the basin to settlements in the Sacred Valley, including Ollantaytambo, Urubamba, Calca, Pisaq and smaller historical communities. This corridor is the most intensely-used in the larger Cusco hydrological catchment area. While Machu Picchu Pueblo (MPP, also known as Aguas Calientes) is the flashpoint for the complex environmental and management problems that impact the HSMP, the environmental and tourism management problems in the area are fundamentally regional in nature. For example, agricultural produce from Santa Teresa generates waste that ends up in MPP. Solid waste from MPP is transported by rail to the city of Cusco for disposal. In turn, solid waste and wastewater from Cusco pollutes the Vilcanota River that flows back through the Sacred Valley and the HSMP. Finally, a hydroelectric plant
(EGEMSA) between Santa Teresa and MPP harnesses the river’s power and sends it over high voltage lines through the HSMP to Cusco.

In the past decade, there has been a significant increase in tourism to the HSMP as well as in the number of local migrants seeking to benefit from tourism related economic opportunities. Due to the lack of preparedness in tourist management and urban services, MPP and the five towns in the Sacred Valley have not been able to fulfill their full economic potential and present a growing environmental and economic risk to the entire Valley. MPP in particular has experienced rapid, unplanned growth, which increases the vulnerability of the local population to the natural risk of debris flows, locally known as huaycos.

As previously mentioned, in 2004, UNESCO cautioned the GoP that mismanagement of tourism in the HSMP could lead to its removal from the list of World Heritage Sites. More recently, during UNESCO’s World Heritage Committee meetings held on July 10, 2008, reiterated grave concerns over governance of the HSMP and noted urgent problems with deforestation, landslide risk, and uncontrolled urban development. As a result, the World Heritage Committee has asked that “reinforced monitoring” be applied to the HSMP along with three other properties on UNESCO’s World Heritage List. The Bank is again well-positioned to play a role in mitigating some of the issues raised by UNESCO, through continued monitoring and supervision of the Project, and use of its convening power to involve other key players.

In 2002, the Government of Finland closed the Machu Picchu Program that aimed to support environmental protection and sustainable tourism in the HSMP after four years of collaboration with the GoP. The Machu Picchu Program successfully supported an environmental protection program, regional and urban master planning exercises, and technical assistance in conservation planning for the National Institute of Natural Resources (Instituto National de Recursos Naturales, or INRENA). However, the program was unable to successfully complete key infrastructure investments, due to a lack of community consultation in project design, limited partnership with the relevant authorities, a narrow focus on the tourism sector and the absence of a regional approach to addressing problems in the Valley.

Past experience indicates that a sustainable solution for the Valley will require: (a) a shared vision by the municipalities of the Vilcanota Valley on how to preserve cultural heritage, facilitate sustainable tourism, improve living conditions and rehabilitate the region’s ecology; (b) delivery and expansion of water, sewerage, solid waste and drainage services in the region; (c) collaboration among local authorities, central agencies and international donors driven by local demand; and (d) commitment from the highest level of the GoP.

Key issues: Approximately 60,000 of the almost 400,000 tourists who visit the HSMP annually de-train at Piscayuccho for a four-day hike there, camping along the Inca Trail, supported by tourist agencies that provide local guides and porters. The large number of trekkers, inadequate sanitary and solid waste facilities and lack of training for guides and porters have led to accelerated environmental degradation along the trail. As recently demonstrated, landslides frequently close down the rail line (the only means of access to MPP and the HSMP). Poor management of water, sewerage and solid waste collection in the Valley exacerbate pollution of the Vilcanota River.

A recent archeological discovery has further increased the region’s attraction as a tourist destination. In November 2003 a Royal Geographical Society (RGS) sponsored expedition published a survey of the ruins of Llactapata, first reported by Bingham, Reinhard and others. Llactapata is a largely unexplored historical site on the ridge to the west of Machu Picchu. The significance of the recent expedition is the astronomical/geodetic relationship established between the two sites. The Llactapata
archeological area is roughly twice as large as the HSMP and will contribute to significant increases in the volume of tourist activity in the Valley. The RGS team reports that there are already visits organized by tour operators to the area. The emergence of Llactapata as a potential tourist destination increases the importance of rapidly implementing measures to manage increased tourism flow and mitigate further environmental degradation to the region.

Conflicts and Risks: A participatory risk assessment and consultation process conducted with Bank support during Project preparation confirmed the existence of complex social, economic and political conflicts in the region. Over 50% of Vilcanota Valley residents have only tenuous links to the tourism sector and are dependent on agricultural and livestock production. These rural constituencies, often in conflict with tourism development interests, demand greater support for agricultural promotion, highlands-rainforest road network connectivity and improved basic rural infrastructure and services. Urban constituencies suffer similar infrastructure and basic service gaps as municipalities are unable to meet rapidly growing demands. Conflicts also emerge as local residents are not integrated into a tourism economy that is driven mostly by external firms and professionals. The consultation process and risk assessment noted a series of conflicts associated with the inability to manage solid waste services, rapid pollution of the Vilcanota River and natural hazards, including landslides, floods and soil erosion.

Urgent measures: A number of urgent tasks are required to reverse environmental degradation in the Valley, assist the GoP in complying with UNESCO’s recommendations and incorporate the findings of a thorough Landslide Risk Assessment. The University of Maryland is conducting a Landslide Risk Assessment under a US$ 230,000 grant from the Global Facility for Disaster Reduction and Recovery (GFDRR) to examine geohazards around MPP, quantify the vulnerability of the town and the stretch of railroad that connects Ollantaytambo with MPP, and develop a detailed risk mitigation strategy.

Role for the Bank: Through the Restructuring, the Bank can continue to contribute to address the complex multi-sectoral problems in the Vilcanota Valley. The Project will also complement an ongoing Bank-supported National Rural Sanitation project (PRONASAR) to expand water and sanitation services to seven towns.

4. Description

Component I: Tourism Capacity Building and Infrastructure Development
The component will support sustainable tourism sector development in the Vilcanota Valley through investments in visitor services, historic preservation and cultural education for local residents and tourists. Specific activities include:

Visitor Services: The Project will develop a network of visitor/interpretation centers equipped with state-of-the-art facilities in Urubamba y Piscaycucho. It will support improvements in basic sanitation and solid waste collection services at specific campsites, including the construction of public toilets and solid waste collection facilities. It will also include investments to improve, expand and standardize the signage system at historical and cultural monuments throughout the Valley and on the Inca Trail.

Historic Preservation: The Project will rehabilitate pre-Hispanic architectural sites, hydrological and agricultural infrastructure and trails throughout the HSMP identified by the National Institute of Culture (INC) and global experts. These targeted investments will preserve important cultural assets and diversify the tourist experience in the area.
Cultural Education: The Project will develop educational content on the history and culture of the Andean people. Visitor/interpretation centers will provide world-class content produced in cooperation with NGS. An information and educational campaign on the cultural heritage and tourism will target local children and other stakeholders.

Component II: Urban Services and Infrastructure Rehabilitation
This component will facilitate access to improved urban services and infrastructure throughout the Valley. Specific investments include support for:

Regional Solid Waste Management System: The Project will include prefeasibility and feasibility studies for the design of a regional solid waste management system in the Vilcanota Valley. A regional solid waste assessment will be conducted under the Project to identify an appropriate strategy and design for a regional solid waste management system. Construction of the system will be financed by the Regional Government of Cusco, rather than the Project.

Urban upgrading and risk mitigation activities in MPP: This sub-component initially included the resettlement of 60 families, which is no longer feasible. Instead, this component will focus on the design and implementation of an early warning system for landslides and other mitigation works according to the findings of a comprehensive risk assessment that is being carried out by the University of Maryland through an additional US$ 230,000 from GFDRR.

Detailed Engineering, Strategic Environmental Assessments and Investments in Urban Infrastructure: The Project will finance detailed engineering studies and physical investments in environmentally-sustainable storm water drainage systems for urban areas in Valley. The Project has already developed a Strategic Environmental Assessment for the Valley. The Project will also identify potential urban water and sanitation investments in the Project area that will be financed through the Bank-supported PRONASAR project. PRONASAR has also agreed to support a program to construct rural latrines in the Valley.

Component III: Local Economic Development
This component will support community-driven local economic development by constructing community telecenters and incubating local economic initiatives through a demand-driven development marketplace-type mechanism. Key investments will include:

Community Telecenters: The Project will develop a network of community telecenters in Pisaq, Calca, Urubamba, Ollantaytambo, Machu Picchu Pueblo and Chinchero. The telecenters will serve as community business incubators by providing access to computers, high-speed Internet access, audio-visual equipment, electronic libraries and other small business facilities.

Development Marketplace: The Project will provide a Development Marketplace-type fund for each municipality that will provide small grants to community associations and small firms to support community-driven economic development. Eligible activities will be defined by municipalities and may include initiatives to promote market access for agricultural products, increased agricultural productivity, and local tourism promotion.

Component IV: Strategic Planning and Municipal Capacity Building

1 Besides lack of the broad community support required by OP 4.10 and lack of available land in the town for resettlement, the plan was based on no systematic risk assessment, and there was a risk of creating a false perception of security among those families not removed. The extreme vulnerability of the entire town and lack of detailed knowledge as to the specifics of that risk demands serious study before any responsible action may be taken.
This component will enhance the strategic planning and management capacity of municipalities in the Valley. Investments will include: (i) a regional Strategic Environmental Assessment (SEA) (already completed); (ii) urban land use plans for the two provincial and four district municipalities (not yet completed); (iii) municipal capacity building programs in participatory planning, tourism management, municipal finance, management of urban services and disaster prevention; (iv) a municipal street addressing system in specific municipalities; and (v) draft zoning and building codes including those geared toward tourist destination management.

Component V: Project Management
The Project will support supervision, monitoring and Project auditing activities to be coordinated by a Project Implementation Team (PIT) based in MINCETUR via their Office for Tourism Development or Dirección Nacional de Desarrollo Turístico (DNDT), and a Project Coordination Unit (PCU) based in COPESCO.

5. Financing

<table>
<thead>
<tr>
<th>Components</th>
<th>Indicative Costs (US$M)</th>
<th>% of Total</th>
<th>Bank-financing (US$M)</th>
<th>% Bank-financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tourism Capacity Building and Infrastructure Development</td>
<td>2.56</td>
<td>31.2</td>
<td>2.07</td>
<td>80.7</td>
</tr>
<tr>
<td>2. Urban Services and Infrastructure Rehabilitation</td>
<td>2.31</td>
<td>28.2</td>
<td>1.00</td>
<td>42.9</td>
</tr>
<tr>
<td>3. Local Economic Development</td>
<td>1.40</td>
<td>17.0</td>
<td>1.10</td>
<td>79.3</td>
</tr>
<tr>
<td>4. Strategic Planning and Municipal Capacity Building</td>
<td>0.90</td>
<td>10.9</td>
<td>0.24</td>
<td>27.1</td>
</tr>
<tr>
<td>5. Project Management</td>
<td>1.03</td>
<td>12.6</td>
<td>0.57</td>
<td>54.8</td>
</tr>
<tr>
<td>Total project costs</td>
<td>8.2</td>
<td>100.0</td>
<td>4.98</td>
<td>61.0</td>
</tr>
<tr>
<td>Total financing required</td>
<td>8.2</td>
<td>100.0</td>
<td>4.98</td>
<td>61.0</td>
</tr>
</tbody>
</table>

6. Implementation
The Project will be executed by MINCETUR via DNDT and COPESCO. Whereas the PIT, responsible for overall Project coordination and supervision has been created at MINCETUR, the Restructuring process entails the creation of a PCU within COPESCO. An assessment of the financial management and procurement capacity of the DNDT and COPESCO was conducted for the Restructuring of the Project. Specific implementation arrangements are:

(i) **DNDT** is responsible for overall project supervision and the execution of studies, capacity building and technical assistance activities under the Project for an amount of US$3.5 million. The PIT consists of an Executive Coordinator, a Technical Coordinator, Financial Management Specialist and a Procurement officer. The Oficina General de Administración or Office of General Administration (OGA) within MINCETUR controls the flow of funds. The Project’s Financial Management and Procurement Officers are located within the OGA but report directly to the Executive Coordinator of the PIT.

(ii) **COPESCO** will be responsible for executing and supervising physical works components for an amount of US$4.7 million, including investments for telecenters, visitor/interpretation centers, visitor
services on the Inca Trail, a signage system for historical monuments, rehabilitation of Andean architecture and infrastructure as well as urban upgrading and disaster mitigation activities in MPP. The PCU will consist of a Project Coordinator, a Procurement officer, Financial officer, Technical Coordinator, Administrative officer and a Safeguards specialist.

The following table shows the proposed allocation of Project components between COPESCO and MINCETUR. Project subcomponents that were originally in the project description and will remain the same are: 1.1, 1.4, 1.5, 1.6, 1.7, 1.10, 1.11, 1.12, 1.13, 2.2, 2.3, 3.2, 3.3, 4.1, 4.3, and 5.1.

Table 1. Allocation of Project components under the restructured Loan Agreement

<table>
<thead>
<tr>
<th>Procurement Plan Components</th>
<th>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tourist Capacity Building and Infrastructure Development</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>1.2 Detailed feasibility and engineering studies for the construction of a bypass road around the historic town of Ollantaytambo</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>1.7 A tourism awareness program for children and community</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>1.10 Production of geotourism maps for visitors and local residents, highlighting the history and culture of the Vilcanota Valley</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>1.13 Carrying capacity study for the Inca Trail</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>2. Urban Services and Infrastructure Rehabilitation</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>2.1 Preliminary assessment on regional solid waste management to identify appropriate strategies and investments</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>2.2 Provision of financing to allow municipalities to carry out their PRONASAR obligations in relation to archaeological chance find procedures assessment for sustainable water and sanitation in small towns and rural communities</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>3. Local Economic Development</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>3.2 Design, construction and provision of equipment for community teletcenters in selected municipalities</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>3.3 Financing of LED projects through Small Grants for Beneficiaries in selected municipalities</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>4. Strategic Planning and Municipal Capacity Development</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>4.1 Strategic environmental assessment for the Vilcanota Valley</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>4.3 Municipal capacity-building programs in municipal finance, management of urban services and disaster prevention</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>5. Project Management</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
<tr>
<td>5.1 Project operations and management by Project Implementation Team of MINCETUR (including technical, administrative, procurement and financial management)</td>
<td>MINISTRY OF FOREIGN TRADE AND TOURISM MINCETUR / DNDT</td>
</tr>
</tbody>
</table>

Procurement Plan Activities

<table>
<thead>
<tr>
<th>COPESCO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tourist Capacity Building and Infrastructure Development</td>
</tr>
<tr>
<td>1.1 Pedestrian access to historic monuments in the Vilcanota Valley (with the exception of the HSMP)</td>
</tr>
<tr>
<td>1.4 Tourist services on the Inca Trail within the HSMP</td>
</tr>
<tr>
<td>1.5 Signage system for historic monuments</td>
</tr>
<tr>
<td>1.6 Construction of Visitor/interpretation Centers</td>
</tr>
<tr>
<td>1.11 Restoration and preservation of historically-significant architecture</td>
</tr>
<tr>
<td>1.12 Restoration and preservation of agricultural and hydraulic infrastructure</td>
</tr>
</tbody>
</table>
2. Urban Services and Infrastructure Rehabilitation

| 2.3 | Rehabilitation of existing urban storm drainage systems in selected municipalities |
| 2.4 | Urban upgrading and disaster mitigation in Machu Picchu Pueblo |
| 2.5 | Detailed feasibility study and implementation of strategies and investments identified in the regional solid waste management study |

4. Strategic Planning and Municipal Capacity Development

| 4.2 | Municipal Territorial Plans to be adopted by the municipalities of Pisac, Calca, Urubamba, Ollantaytambo, Machu Picchu, Chinchero and Santa Teresa; and a Vilcanota Valley Multiprovincial Territorial Plan of the above-mentioned municipalities |
| 4.4 | Municipal street address system in the selected municipalities within the Vilcanota Valley |

5. Project Management

| 5.1 | Project operations and management by Project Coordination Unit of COPESCO (including technical, administrative, procurement and financial management) |
| 5.3 | Monitoring, evaluation and follow-up studies |

7. Sustainability

Borrower commitment to the Project is very high as a result of: (i) strong political will in the GRC to become involved in the Project and to compensate for MINCETUR’s counterpart fund shortfall by way of their high liquidity from tourism and hydrocarbon and mining royalties, (ii) strong political will within MINCETUR and MEF to transfer execution of relevant Project activities to the GRC; (iii) a strong executing agency (COPESCO) with the necessary capacity to accelerate Project implementation; and (iv) strong political will within MINCETUR to reverse previously poor Project performance by restructuring its PIU.

Community Participation: A broad consultation process was pursued under the original Project, including consultation of the existing safeguards documents. The Restructuring is itself the product of an ongoing process of consultation with diverse stakeholders, beginning in March, 2007, and including consultation of the SEA in November and December of 2007, via conversations, interviews and participatory workshops in Sicuani, Urubamba, Quillabamba and Cusco, with mayors, other city officials, NGOs and local residents (the results of these workshops are recorded in the SEA). The Terms of Reference for the Ollantaytambo Bypass Road study were subject to public consultations in March 2008, along with multi-stakeholder discussions of the various safeguards aspects of the Project. As earlier consultations raised local expectations in ways that implementation failed to meet, any new consultation must be undertaken with great sensitivity, and carefully sequenced with the achievement of visible, concrete results on the ground.

Municipal Management and Capacity Building: Successful rehabilitation of the Valley will require municipalities to improve environmental management, control urban expansion and provide improved basic services to local residents and tourists. The Project will support municipal capacity in financial management, urban service provision, physical planning and tourism management to enhance the sustainability of investments in solid waste management, telecenters, visitor/interpretation centers and additional infrastructure investments leveraged through other Bank-supported projects in the pipeline.

Visitor/Interpretation Centers and Telecenters: The network of visitor/interpretation centers and telecenters will become self-financing before project completion. Visitor/interpretation centers will charge entrance fees from tourists and the telecenters will charge fees for the use of computers, internet, facilities and other support services. Operations and maintenance for each
visitor/interpretation center and telecenter will be financed under the Project for one year to ensure satisfactory transition to a self-financing model. The network of visitor/interpretation centers and telecenters will be managed by INC and the municipalities respectively.

8. Lessons Learned from Past Operations in the Country/Sector
Lessons from sector work in Peru as well as in Tourism, Cultural Heritage Preservation, and Urban Infrastructure projects are reflected in project design. These include:

(i) Sustainable tourism projects can catalyze local economic development. Recent sustainable tourism promotion operations have successfully supported local economic development. Technical assistance and capacity building targeted to small and medium firms in business development and tourism support services can support firm growth and generate employment. Community telecenters in Ecuador, Cajamarca, Peru, Bolivia and elsewhere serve as business incubators by providing small business facilities and support services. The Project will include small business capacity building, and community telecenters.

(ii) High-quality content and best practices are accessed through knowledge sharing and business partnering. Sustainable tourism projects can benefit from international and local business partnering to leverage leading know-how in historical preservation, cultural heritage education, and tourism management. Strategic partnerships facilitate capacity building of national and local institutions through exposure to world-class experts and knowledge. The Project will facilitate partnerships between the GoP and the NGS.

(iii) Quality management promotes client-focused project and continuous improvements. Continuous, gradual improvement through successive approximations, reliable measurement and progress reporting will take place throughout project implementation. The Project will utilize an address-based GIS system for data collection and information management and as feedback for monitoring and evaluation.

9. Safeguard Policies (including public consultation)

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

Although the Project was originally rated as an Environmental Category B, it has been upgraded to Category A under the Restructuring due, not to the nature of the proposed works, but rather to the high sensitivity of the Project area, from an archeological and social perspective given that it is in and around the Historical Sanctuary of Machu Picchu (HSMP), a UNESCO World Heritage Site. The
Project will thus be subject to the correspondingly higher standards for stakeholder consultation, analysis and disclosure.²

Nevertheless, the Restructuring has significantly reduced the Project’s potential environmental and social impacts, by strengthening local implementation capacity before larger scale investments can be managed. Certain originally planned works have been eliminated, and others replaced with feasibility studies to prepare for future works to be executed with adequate funding and implementation capacity. Based on the results of the studies, including budgeting and compliance with a set of screening criteria, the Project Steering Committee (composed of MINCETUR, COPESCO and MEF) will select a small number of works to be financed with the remaining Project funds. All Bank-financed studies will incorporate Bank safeguards, regardless of whether the actual works deriving from such studies are Bank-financed.

A new mechanism has been built into the Loan Agreement, consisting of “triggers” (gatillos), or disbursement conditions for particular sub-component categories, and including the following set of “transversal” triggers, to be verified for all sub-project components involving works. Listed in the Operational Manual, the transversal triggers are:

1) the screening out of all involuntary resettlement impacts, according to OP 4.12;
2) the adequacy of free, prior and informed consultation, in accordance with OP 4.10;
3) revision and disclosure of the PEC, once revised, in compliance with OP 4.10;
4) prior to the start of works, an updated version of the Project’s Environmental Management Framework (as reflected in the OM) for the restructured Project which has received Bank approval, must be in effect;
5) prior disclosure of all relevant documents; and
6) the existence of adequate capacity for safeguards implementation (i.e., the hiring of two safeguards specialists by COPESCO—one social and one environmental—and the start of their training activities).

Environmental Assessment (OP 4.01). In the original Project, two environmental frameworks were developed to manage impacts from minor infrastructure construction and the Regional Solid Waste Management System (the Environmental Framework for Minor Infrastructure Works and the Framework for the Construction of Landfills,³ respectively). An Environmental Assessment was also conducted on the Camino del Inca, including proposals addressing key issues, such as waste management concerns. The OM includes these frameworks and integrates environmental considerations throughout the Project life. As part of the Project’s investments, MINCETUR also completed a regional SEA for the Valley that was consulted extensively. COPESCO will hire an environmental specialist to review all technical plans and studies, in order to ensure that environmental considerations are properly integrated into the Project, including the components executed by MINCETUR. This environmental specialist will also review the existing frameworks and update them as necessary to manage the restructured project.

Natural Habitats (OP 4.04). The policy on Natural Habitats, OP 4.04 is triggered for this Project, since works will take place in or around HSMP, which is a natural protected area. Although no conversion of natural habitats is planned, the Abra Malaga Private Conservation Zone is located just outside the Project area. The Environmental Framework for Minor Infrastructure Works contains screening procedures to identify works in protected areas and directions for implementation to ensure

² The Pelosi Amendment does not apply to this Restructuring. The Pelosi Amendment does not apply to Projects undergoing restructuring that involves no new lending. Instead, an acceptable period, of approximately 30 days, is being allotted for disclosure, review and response by diverse stakeholders, including the general public.
³ Due to the cancellation of the original contract for solid waste disposal, the only activity this framework will influence is the development of Studies for the Management of Vilcanota Valley’s Solid Waste.
that any such activities are carried out in accordance with the protected area’s environmental management plan.

Indigenous Peoples (OP 4.10). Although this policy was not triggered under the original Project, this policy has been activated under the Restructuring. As indigenous peoples have been determined to constitute a majority of the affected population, however, no stand-alone Indigenous Peoples instrument will be prepared for this Project. Rather, the policy’s superior standards of “free, prior and informed consultation,” “social assessment,” “culturally appropriate benefits,” and “broad community support” will apply to the entire Project in a blanket manner. Specifically, the following principles will be taken into account in designing and implementation of future Project actions:

1) **Free, prior and informed consultation.** Consultation under the original Project was extensive, and the proposed Restructuring is itself the product of an ongoing process of consultation with diverse stakeholders. Adequate prior consultation, in accordance with OP 4.10, is one of the “triggers” for all subcomponents. As consultations under the original Project raised local expectations in ways that implementation failed to meet, new consultations will be undertaken with sensitivity, and carefully sequenced with the achievement of visible, concrete Project results on the ground.

2) **Social assessment.** Social Assessment (SA) activities are currently underway.

3) **Culturally appropriate benefits.** Each financed activity will aim to ensure, via input from the two above-mentioned processes, that local stakeholders receive justly distributed and culturally-appropriate benefits.

4) **Broad community support.** This involves mechanisms and processes for the gauging of local responses – both positive and negative – to Project actions, and relying upon local decision-making and consensus-building means.

As this is an ongoing project, these existing activities will be progressively strengthened under the Restructuring. In reorienting the Project to explicitly respond to the requirements of the policy. So far, MINCETUR and COPESCO have undertaken: (a) a review of the entire Project consultation process to date; (b) an identification of all gaps with regard to the policy; (c) an analysis of existing Project institutions and capacity with regard to application of the policy; and (d) the development of a strategy for filling those gaps through existing, modified and or/newly created institutional arrangements.

All consultation and social analysis activities related to safeguards compliance will be under the responsibility of COPESCO, working in close collaboration with the Strategic Communication Plan (“Plan de Comunicación Estratégica,” or PEC), and with additional staff and resources from the

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4 This process included consultations with key stakeholders on the Project’s environmental aspects, it was also unsystematic, unevenly documented, and limited to certain activities (such as the Geotourism Map and the Ferias de Desarrollo LED small grants program). This process has been documented and a summary disclosed according to the Bank’s standards.

5 This process, beginning in January, 2007, included consultation of the SEA in November and December of 2007, via conversations, interviews and participatory workshops in Sicuani, Urubamba, Quillabamba and Cusco, with mayors, other city officials, NGOs and local residents (the results of these workshops are recorded in the final SEA report). The TORs for the Ollantaytambo Bypass Road study were subject to public consultations in March 2008, along with multi-stakeholder discussions of the various safeguards aspects of the Project. This process has also been documented and a summary disclosed according to the Bank’s standards.

6 These include a public opinion poll, to establish baseline information on local stakeholders (e.g., a demographic profile, communication needs and barriers), and a Stakeholder Engagement Plan, to identify key stakeholder groups and build a regular, constructive dialogue with local communities and institutions.

7 These aspects are treated at greater length in the Indigenous Peoples Instrument disclosed by COPESCO, MINCETUR and the Bank, as well as in the revised PEC, to be completed and disclosed as a “trigger” to the initiation of any future works in the Project.
Project as necessary.\textsuperscript{8} To build on existing work, and avoid parallel structures and redundant activities, COPESCO’s safeguards specialists will develop, together with MINCETUR’s Communications Specialist, a joint strategy for strengthening and complementing the PEC’s existing activities, with additional activities, and determining any additional Project staff and financial resources that these modifications may require. Revision and disclosure of the PEC, including this strategy and all other modifications related to OP 4.10, are among the “triggers” for all subcomponents.

**Physical Cultural Resources (OP 4.11).** The Project includes activities in or around the UNESCO World Heritage Site of Machu Picchu so the Physical Cultural Resources Safeguard is triggered. There will be works on, in and around historic monuments and structures in the surrounding area and chance finds are possible. Specifically the Project includes:

- improvements to basic sanitation and solid waste collection services at four campsites along the Inca Trail;
- a signage system for historic monuments;
- restoration and preservation of historically-significant architecture; and
- restoration and preservation of agricultural and hydraulic infrastructure.

The INC has been involved in the Project from its inception, including in the drafting of all relevant terms of reference for studies or activities and will continue to work closely with the Project in all matters concerning historical monuments. The environmental frameworks both include sections on chance find procedures and will outline appropriate preservation and protection measures. The SEA also includes a sub-component for the conservation of cultural structures, arts and other physical or intangible cultural assets which includes: conserving archeological sites, old villages, sacred sites, living culture, museums and other forms of Vilcanota Valley’s cultural heritage, updating an inventory of cultural assets in the Valley (to be prepared in collaboration with INC) and finally establishing regional and national laws for the protection of tangible and intangible cultural heritage resources.

**Involuntary Resettlement (OP 4.12).** No subcomponents under the Restructuring will involve any involuntary resettlement, and the “triggers” for authorization of future works by the Steering Committee include the screening out of any potential resettlement impacts. Under the original Project, a Resettlement Action Plan had been prepared for 60 at-risk households in MPP. The plan has been abandoned, based on consultations and site visits, due to lack of broad community support and doubts as to its effectiveness in terms of landslide risk mitigation. Instead, a comprehensive Urban Land Use Plan for the town will be developed, taking into account the results of the risk management study currently being undertaken by a team of specialists from the University of Maryland, with support from GFDRR. A Process Framework had also been prepared but never implemented for 47 families residing and/or engaging in subsistence agriculture and cattle-raising along the Inca Trail, including training and assistance in seeking income generation alternatives. Under the Restructuring, new consultation with this population, in keeping with the Bank policy on Indigenous Peoples (OP 4.10), and aimed at avoiding or mitigating any future resettlement, will be undertaken.

**Institutional Arrangements and Capacity.** Several modifications have been made under the Restructuring in the Project’s institutional arrangements that have significant safeguards implications.

\textsuperscript{8} Funded through an initial US$ 90,000 grant from the Italian Culture and Sustainable Development Trust Fund, the PEC is currently engaged in data collection activities. – via
Under the Restructuring, COPESCO has assumed responsibility for safeguards compliance in the Project. COPESCO’s tasks will include: reviewing the restructured Project and existing environmental frameworks to determine any gaps and propose any necessary additions or revisions;

(a) screening of all proposed works to ensure their compliance with the applicable Environmental Management Frameworks, the OM and safeguards policies, including involuntary resettlement.

(b) screening potential works for resettlement and other safeguards compliance issues, and supervision responsibilities, as detailed in the environmental frameworks and OM;

(c) reviewing all studies, technical plans and related ToRs to ensure their compliance with applicable Environmental Management Frameworks, Operations Manual and safeguards policies;

(d) submitting all new or revised environmental frameworks, and environmental management plans for individual works (as necessary), to the Bank for no-objection; and

(e) ensuring that the above-described standards of OP 4.10, on Indigenous Peoples, are properly and reasonably applied; and

(f) any other safeguards supervision responsibilities as detailed in the environmental frameworks and OM.

In order to fulfill these obligations, COPESCO is currently in the process of hiring two safeguards specialists (one for environmental and one for social safeguards), so as to develop the necessary capacity to execute this and future Bank-financed operations (their ToRs are included in the OM). Once hired, these specialists will be provided adequate safeguards training and support, beginning with a series of workshops planned for January, 2009. Additional training and support activities will be added as necessary.

The Project Steering Committee, consisting of representatives of MEF, MINCETUR and COPESCO, will be responsible for providing policy guidance and oversight to Project implementation, including the overseeing of safeguards compliance, staffing and coordination, and submission of all studies and plans for proposed works to the Bank for safeguards analysis and no-objection. Upon completion of initial studies, the Steering Committee will select a small number of works to be financed under the Project, based on factors including estimated budget and compliance with safeguards screening criteria and other eligibility requirements. The Steering Committee’s powers and responsibilities are defined in the OM.

10. List of Factual Technical Documents

- Evaluación Ambiental Estratégica del Proyecto de Reordenamiento y Rehabilitación del Valle del Vilcanota (June 2008). The Borrower conducted this regional Strategic Environmental Assessment (SEA) to determine the likely medium- to long-term environmental impacts in the Vilcanota Valley and HSMP from tourism, industrial activity, agriculture and related demographic and resource use patterns. Based on the SEA, specific

9 Founded as a joint initiative between UNESCO and the GoP for the preservation and restoration of the historical, cultural and ecological assets of the Vilcanota Valley, COPESCO has 30 years’ experience in project planning and implementation in the Cusco region.

10 They include: (a) provision of institutional support and a coordination framework for Project implementation; (b) establishment of strategic guidelines for the Project implementation, including review of annual operational plans, (c) review of overall progress in Project implementation by MINCETUR and COPESCO (including a review of audits), and (d) evaluation of Project activities and oversight of compliance with Project norms, feasibility studies and objectives (including analysis and consideration of which Project activities might require pre-feasibility studies).

11 This includes: (i) risk prevention and mitigation plans; (ii) natural resource management; (iii) economic and cultural activities; (iv) sustainable tourism development of the Vilcanota Basin; and (v) a program to resolve inter-institutional conflicts in the Basin. It specifically addresses the conservation of historical structures, arts and other physical or intangible cultural assets (archeological sites, historic villages, sacred sites, living culture, museums and other aspects of the Vilcanota
urban and rural land-use plans will be developed for the municipalities of Machu Picchu, Ollantaytambo, Santa Teresa, Chinchero, Urubamba, Calca and Pisac. 

- **Guía Marco para la Evaluación Ambiental para la Construcción de Rellenos Sanitarios.** (MINCETUR). A framework for the construction of landfills, to be used under the Restructured Project to guide the development of feasibility studies and detailed engineering plans for a Regional Solid Waste Management System.  

- **Guía Marco para la Evaluación Ambiental de Obras de Infraestructura Menor (OIM).** The Environmental Framework for Minor Infrastructure Works developed to govern all other works in the Project. 

- **Gestión Ambiental del Camino Inca a Machu Picchu: Diagnóstico y Propuestas de Solución.** A specific environmental assessment conducted for the Inca Trail in December, 2003, addressing such key issues as waste management. 

- **Manual Operacional (OM).** The Project’s Operational Manual that includes the above frameworks and integrates environmental and social concerns into all phases of the Project.

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Valley cultural heritage), updating an inventory of cultural assets in the Valley (to be prepared in collaboration with INC), and establishing regional and national laws for the protection of tangible and intangible cultural heritage resources.

12 Due to the cancellation of the original contract for solid waste disposal, the only activity this framework will influence is 2.5, the Studies for the Management of Vilcanota Valley’s Solid Waste.

13 This includes: (i) a guide for the categorization of works (based on type and level of sensitivity, and taking into account Bank safeguard policies); (ii) a fieldwork checklist to determine the potential social and environmental impacts of infrastructure works; and (iii) an environmental manual for infrastructure works (addressing site selection, norms for contractors engaged in construction activities, community information and outreach, chance-find procedures, supervision and monitoring, etc.). It also includes chance find procedures and other measures for managing works at archeological sites.