

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

Report No.: PIDA2550

|   |   |
|---|---|
| <b>Project Name</b>                           | Cusco Transport Improvement Project (P132505)   |
| <b>Region</b>                                 | LATIN AMERICA AND CARIBBEAN   |
| <b>Country</b>                                | Peru  |
| <b>Sector(s)</b>                              | Urban Transport (60%), General transportation sector (40%)  |
| <b>Theme(s)</b>                               | City-wide Infrastructure and Service Delivery (55%), Other urban development (15%), Infrastructure services for private sector development (15%), Municipal governance and institution building (15%)   |
| <b>Lending Instrument</b>                     | Investment Project Financing  |
| <b>Project ID</b>                             | P132505   |
| <b>Borrower(s)</b>                            | Ministerio de Economía y Finanzas - MEF   |
| <b>Implementing Agency</b>                    | COPESCO   |
| <b>Environmental Category</b>                 | B-Partial Assessment  |
| <b>Date PID Prepared/Updated</b>              | 05-Dec-2013   |
| <b>Date PID Approved/Disclosed</b>            | 05-Dec-2013   |
| <b>Estimated Date of Appraisal Completion</b> | 06-Dec-2013   |
| <b>Estimated Date of Board Approval</b>       | 27-Mar-2014   |
| <b>Decision</b>                               | <p>(a) The chair authorized the team to appraise and negotiate the project taking into account the cautions mentioned above.</p> <p>(b) The review discussed the overall risk ratings for preparation and implementation of the project. The meeting agreed on moderate and substantial risk ratings for preparation and implementation, respectively.</p> <p>6. The Decision Review Note has been decided by Susan G. Goldmark</p> |

## I. Project Context

### Country Context

Peru has enjoyed a period of broad-based rapid economic growth. Sound macroeconomic management during the boom years created the fiscal space needed for countercyclical policies to soften the impact of the global economic crisis. In 2011, GDP grew at a rate close to 7 percent, led by strong domestic demand. In 2012, despite the weak macroeconomic external environment, GDP expanded by 6.3 percent. Medium and long term macroeconomic projections are similarly promising with GDP expanding by over 5 percent in the 2013-2018 period, with most of the growth attributed to private investment and private consumption. While inequality of opportunity remains

high, Peru has made substantial progress in addressing infrastructure gaps, as reflected by the fact that Peru ranked 7th out of 23 Latin American and Caribbean countries and 61st overall in a 2013 infrastructure ranking.

Peru's strong economic performance over the past decade has been accompanied by a significant shift in public expenditure authority and resources to the subnational level. Until 2002, Peru was one of the more centralized countries in Latin America, with only 12 percent of its public expenditures managed by subnational governments. Passage of the Decentralization Framework Law, established the guiding principles of a political and fiscal decentralization process. A new autonomous level of Regional governments was formally created in 2002, to complement the existing Provincial and District governments. As part of the decentralization process, more responsibilities, functions and resources have been transferred from the central government to subnational governments. The non-financial expenditure of the subnational governments increased from 34 percent of non-financial general government expenditure in 2004 to 38 percent in 2011. Likewise, the share of subnational governments in public investment increased from 44 percent in 2004 to 58 percent in 2011. However, there are significant challenges in the decentralization process, related to allocation of resources from mining revenues and the local capacity for implementing the public investment programs.

Job creation and higher incomes have led significant declines in poverty rates. Poverty fell from 55.6 percent to 27.8 percent between 2005 and 2011, while extreme poverty was reduced from 15.8 percent to 6.3 percent. The continued reduction in poverty is remarkable, given that 2008 saw high food price inflation and in 2009 the global economic crisis induced an economic slow-down. However, poverty incidence remains unequal in geographic terms, with the rural poverty rate above 50 percent. In absolute terms, however, the majority of the poor are still located in urban centers, particularly large and intermediate cities.

In line with the national macro-economy, Cusco has experienced unprecedented growth in the last decade, thanks to the mining sector and the region's vibrant tourism sector. Cusco has grown impressively over the past decade, achieving the best performance among all Peruvian departments. The region more than doubled its output in only 10 years, witnessing a GDP increase from PEN\$ 2.6 billion (US\$930 million) to more than PEN\$ 6 billion (US\$2.150 billion). The region therefore, grew at an average annual rate of 7.4 percent, the fastest economic expansion among all Peruvian departments in the period. The mining was the sector that drove most of this economic expansion, but tourism has also played a salient role, considering that Cusco hosts approximately 80 percent of tourists traveling to Peru.

Economic growth has contributed to a significant improvement in welfare, but poverty in the city of Cusco is still higher than in other major urban centers in Peru. While Cusco has been one of Peru's top performers in poverty eradication (with a reduction of 7.8 percent in the number of poor people, defined in monetary terms, in the last recorded year), around 20.6 percent of the City of Cusco's 435,000 dwellers still remain in poverty and 4.1 percent are extremely poor. This compares favorably with the national urban poverty line which stood at 21.3 percent in 2009, but is still higher than poverty rates in other cities, notably Arequipa (15.7 percent), Trujillo (18.5 percent), and Lima (14.7 percent).

Equity and shared prosperity indicators in the City of Cusco have improved in the last decade, but Cusco depicts a gap in social development vis-à-vis the richer cities in Peru. The City

of Cusco is one of the best performers in terms of shared prosperity, evidenced by a higher mean income growth of the bottom 40 percent against the overall income growth. In addition to this positive result, which is indicative of a better income distribution within the city, Cusco is also one of the best performers among all urban centers in Peru. Additionally, at 0.31, the Gini coefficient is also lower than the national average (0.46) and even lower than cities such as Lima (0.36) and Arequipa (0.33). As mentioned above, however, the City of Cusco still lags behind its peers in some social development indicators. In 2006, the latest year for which data are available, the city ranked 45th in Peru in the Human Development Index, evidencing a gap in education and life expectancy rates compared to other intermediate cities in Peru with even a lower GDP per capita.

### **Sectoral and institutional Context**

#### **Transport Sector in Cusco**

The city of Cusco is Peru's fifth largest city. Located at 3,300 meters above the sea level, the city has an approximate extension of 380 square kilometers, a population of nearly 435,000 and is divided in five districts: Cusco, Santiago, Wanchaq, San Jeronimo, and San Sebastian. The city is a UNESCO World Heritage Site which integrates a number of pre-Inca and Inca archeological sites with a renowned, architecture-rich, colonial-era historical core. Tourism is one of the most important economic activities in Cusco, and has a profound impact in the City's land use (due to demand for hotels, restaurants, commercial space, and transport services) as well as for the commuting patterns of workers and visitors. Tourism is also one of the main forces driving residents away from the historic core into the eastern part of the city, which is characterized by the predominance of residential, working-class neighborhoods. Such dynamic urban forces have generated the necessity to better serve the residential eastern part of the city with urban infrastructure and transport facilities, while maintaining the economic dynamism in the historic core. An example of previous investments which have been made to better serve the east of the city is the Boulevard de la Cultura, which is a 6-lane avenue by which an important part of the commuter trips in public transport are done.

The City receives approximately 80 percent of foreign tourists who visit Peru, since besides its own attractiveness it serves as the main entrance of tourists visiting Machu Picchu and the Sacred Valley region. Cusco received 2.3 million visitors in 2011, rising from 1.6 million in 2010 and 1.4 million in 2009. The number of tourists has more than doubled in the last ten years. For transport planning, the total tourist population adds strain to the city's road, parking and walking infrastructure. The above mentioned conditions are taken into consideration in the City's 2013-2023 Urban Development Plan 2023 (UDP), which recognizes the need for more and better urban transport infrastructure in order to allow continued economic growth. The Plan also recognizes that the utilization and characteristics of the City's urban road network currently pose challenges for clean, safe and affordable urban mobility of Cusco's inhabitants and tourists, alike. As the population and number of visitors increase, a further deterioration of mobility is likely.

The Regional Government of Cusco is orienting its UDP towards a sustainable growth path. In order to allow for the investments contemplated in such plans to occur, the regional government has centered its efforts on improving its financial position. Under this scope, the Regional Government submitted itself to a credit assessment to broaden its financing options and facilitate its access to financial markets. As a result, the Regional Government was rated BBB- for long-term debt, which reflects its capacity of meeting financial commitments, both capital and interest, under certain conditions and deadlines. In addition, the Regional Government is currently working with the

Ministry of Economy and Finance with the Bank's assistance to achieve an even more competitive position.

The urban road system in Cusco was initially envisioned to be dominated by three longitudinal, east-west arteries: the Cultura Boulevard (upgraded in 2006 and in 2012 due to increasing trips between the eastern part of the city and the historic core), the Cusco Via de Evitamiento Road (under partial construction) and the Cusco Via Expresa Avenue (built partly). The city has limited transversal circulation due to its uneven topography. Currently, only the Cultura Boulevard is fully operational, absorbing most of the city's east-west traffic. This traffic patterns are likely to be emphasized due to increasing availability of affordable housing in the eastern part of the city and the commercial, more expensive and tourist-driven nature of the historic core. The current vehicle fleet consists of around 50,000 private vehicles, with an estimated annual growth rate of 4.2 percent.

Traffic congestion is particularly high in the city's Historical Core, where colonial-era-alleys turned into narrow streets are not suitable for the traffic they are currently enduring. The traffic flows in the center are worsened due to (a) traditional residents living and commuting from further away residential areas to the increasingly expensive historic core; and (b) a large fleet of urban taxis which caters for the large tourist floating population. Following international sustainable transport best-practices in similar urban landscapes, the 2023 UDP pledges for a strategy that regulates traffic and parking in the historic core and favors non-motorized mobility.

The Public Transport System of the city of Cusco handles around 63 percent of the city's daily trips. However, accessibility, congestion, pollution and road safety concerns do not allow for proper service delivery. As the 2023 UDP recognizes, the system needs to better cope with the increasing demand for mobility (both in coverage and number of trips) while at the same allowing the poorest to access the system through affordable fares. Equally important is the maintenance and management of the underdeveloped urban road system by local governments that, if not correctly addressed, will lead to increasing financial and economic transport-related costs.

Taking into account the described problematic that the CPM faces in its mobility system, the City has defined in its UDP the need to undertake additional infrastructure upgrade investments to better serve the growing eastern part of the city, which is also one of the poorest. The upgrade of the Via Expresa Avenue is a critical component of such investment program due to the fact that it runs parallel to the city airport, which is being moved away from CPM. The empty airport is leaving available land with a high potential of urban development in an area already booming with low income residential neighborhoods. Via Expresa Avenue is currently in suboptimal conditions and thus its upgrade will also reduce commuting burden on the city center by improving connectivity along the east-west axis of the city. Additionally, the project will improve the city's ability to cope with additional mobility demands which will emerge once the airport plot is developed and urbanized.

The Cusco Transport Improvement Project (METRA) is part of the efforts of the World Bank to improve livelihoods and competitiveness in Cusco. As such, the project maintains a close relationship with the Cusco Regional Development Project (P117318, PRODER Cusco) builds upon the earlier Vilcanota Valley Rehabilitation and Management Project (PRRVV) and is intended to be the first regional development project piloting how the World Bank could lend to regions. Based on agreements between authorities at the central and regional governments, the Bank will

provide financing for two distinct projects to support the Cusco Regional Development Plan, namely, a multi-sectoral tourism program (PRODER Cusco) consisting of tourism investments, solid waste and disaster risk; and METRA, which is the subject of this PAD. METRA aims at supporting institutional strengthening of Provincial agencies in transport planning administration and will finance the construction of the Via Expresa Avenue, which will grow from being a poorly maintained, two lane unpaved street for the most part, to a dual carriageway avenue integrated to the urban environment of the city.

The METRA Project design is being promoted by the World Bank and the National Government of Peru as best practice example in urban mobility enhancement for intermediate cities in Peru. As such, the Project has the potential of being replicated in other Peruvian secondary cities which are upgrading their urban mobility systems towards a path of sustainable accessibility for the poorer segments of the population.

## II. Proposed Development Objectives

The overall PDO is to improve mobility in the east-west corridor of Cusco Provincial Municipality.

This objective will be achieved by: (i) the capacity expansion and completion of the dual carriageway section of the East-West Via Expresa Avenue, and (ii) strengthening the capacity of the CPM in the definition and implementation of mobility policies.

## III. Project Description

### Component Name

Component 1: Integral Improvement of the Via Expresa Avenue of Cusco Provincial Municipality

### Comments (optional)

(US\$143 million, of which US\$112.7 million is Bank-financed)

### Component Name

Component 2: Improvement of Mobility in Cusco Provincial Municipality

### Comments (optional)

(US\$3.6 million, of which US\$3.0 million is Bank-financed)

### Component Name

Component 3: Institutional Strengthening

### Comments (optional)

(US\$ 4.6 million, of which US\$4.3 million is Bank-financed)

### Component Name

Component 4: Project management (US\$ 1.4 million).

### Comments (optional)

This amount is financed by local counterpart contributions.

## IV. Financing (in USD Million)

|                                 |        |                       |               |
|---------------------------------|--------|-----------------------|---------------|
| Total Project Cost:             | 152.60 | Total Bank Financing: | 120.00        |
| Financing Gap:                  | 0.00   |                       |               |
| <b>For Loans/Credits/Others</b> |        |                       | <b>Amount</b> |

|   |        |
|---|--------|
| Borrower  | 32.60  |
| International Bank for Reconstruction and Development | 120.00 |
| Total   | 152.60 |

## V. Implementation

The loan will be to MEF, which will on-lend the proceeds with the same conditions to the Cusco Regional Government (CRG). The CRG will repay the loan proceeds by authorizing intercept on central government transfers. The CRG will have overall responsibility for the project, through PER COPESCO serving as the implementing agency.

An institutional assessment of COPESCO has been carried out and used to determine staffing and organizational arrangements for the Project. The Project design includes capacity building and implementation support, providing the implementing agency with the necessary tools and training to carry out their functions more effectively. The implementation timeframe of the Project is expected to be five years.

PER COPESCO will be responsible for implementation of all Project activities, internal and external communications, financial management, procurement and compliance with safeguards policies. PER COPESCO has already established a PCU that will be responsible for the overall implementation of the proposed project METRA and it is the same PCU that will manage the Tourism project already approved by the Bank. Thus, this PCU will manage both Bank projects. In other to improve the Via Expresa Avenue, whose legal responsibility to do so rely in CM, the CRG has entered, in principle, into a delegation agreement with the CM, transferring the responsibility to PER COPESCO. However, the Project will require a specific delegation agreement showing key functions such as to prepare technical studies, terms of reference, bid documents and supervision of construction. The maintenance of the Via Expresa Avenue will be kept at the CM. Furthermore, this delegation agreement (named Institutional Cooperation Agreement) will detail how the activities of the Project Component 2 will be executed. The implementation timeframe of the project is expected to be four years.

## VI. Safeguard Policies (including public consultation)

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

**Comments (optional)**

## **VII. Contact point**

### **World Bank**

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### **Implementing Agencies**

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