REPORT NO.: RES35883

DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

CUSCO REGIONAL DEVELOPMENT

APPROVED ON NOVEMBER 22, 2013

TO

REPUBLIC OF PERU

SOCIAL, URBAN, RURAL AND RESILIENCE GLOBAL PRACTICE

LATIN AMERICA AND CARIBBEAN

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I. BASIC DATA

Product Information

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>P117318</td>
<td>Investment Project Financing</td>
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<table>
<thead>
<tr>
<th>Original EA Category</th>
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<tr>
<td>Full Assessment (A)</td>
<td>Full Assessment (A)</td>
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<table>
<thead>
<tr>
<th>Approval Date</th>
<th>Current Closing Date</th>
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<tbody>
<tr>
<td>22-Nov-2013</td>
<td>31-Jan-2019</td>
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Organizations

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<th>Borrower</th>
<th>Responsible Agency</th>
</tr>
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<tbody>
<tr>
<td>REPUBLIC OF PERU</td>
<td>Cusco Regional Government</td>
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Project Development Objective (PDO)

Original PDO

To improve the quality of tourism and solid waste management services and increase the resilience of the tourism sector to the impacts of natural disasters in the provinces of Calca, Urubamba, and Cusco.

Summary Status of Financing

<table>
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<th>Ln/Cr/Tf</th>
<th>Approval</th>
<th>Signing</th>
<th>Effectiveness</th>
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<td>24-Jul-2014</td>
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Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES
Overall Project Status

1. The US$35 million IBRD loan for the Cusco Regional Development Project was approved on November 22, 2013 with a closing date of January 31, 2019. The loan was declared effective after almost one year, on November 3, 2014, due to local government elections and the resulting changes in leadership. The project was restructured in June 2017 to prioritize activities that were deemed achievable within the remaining project time frame, such as the Urubamba and Calca landfills, tourism development activities and some of the disaster risk prevention activities (the major restructuring included the cancellation of the construction of the Cusco landfill).

2. A partial cancellation of US$18.9 million from the loan was approved on June 28, 2018 followed by the second restructuring on November 6, 2018 to reflect this cancellation of loan proceeds and to focus on the few activities that could be completed before the original loan closing date. The key changes included: cancelation of the works at the Ollantaytambo and Pisac archeological sites and the risk mitigation works in the Ccochoq river basin, the reduction of the scope of the Competitive Fund, the exclusion of the construction of the Calca landfill because of lack of time to complete the works, and the reduction of loan proceeds for the Institutional Strengthening and Management.

3. On June 14, 2018, the World Bank declared misprocurement without cancellation for two contracts: the works contract of the Urubamba landfill and the consulting service contract for the implementation of the Competitive Fund. These declarations hampered all procurement processing since June and significantly reduced the number of contracts signed during the last six months. The definition of the process for the reimbursement of the ineligible expenses from the regional government budget to the project designated account took more than six months (this was the first time misprocurement was declared in Peru on a subnational project). On January 2019, the new elected Government of Cusco and MEF agreed on the process for the reimbursement and it should be promptly completed in the coming weeks. The two contracts had a value of US$4.74 million, of which US$3.36 million had been paid with project funds and will need to be reimbursed. The remaining US$1.38 million will be paid directly by the regional government budget to the contractor and the firm.

4. The current disbursement amounts to US$4.77 million, equivalent to 29 percent of the available loan amount (US$16.05 million), and the majority of the remaining revised loan proceeds will not be utilized. The project experienced delays in implementation, with the main challenges being: (i) the lack of key personnel and high staff turnover within the Proyecto Especial Regional Plan COPESCO — Commission to Supervise the Cultural Tourism Plan PERU-UNESCO (Comisión Especial para Supervigilar el Plan Turístico Cultural PERU UNESCO,) — which houses the Project Implementation Unit (PIU); and (ii) overall weaknesses in procurement capacity, financial management and safeguards procedures. The project is in compliance with legal covenants and World Bank fiduciary policies. The 2017 audit report, which was received on June 27, 2018 after some revisions, was found acceptable to the Bank on September 7, 2018. The next audit report for the fiscal year 2018 is due by June 2019.

Status of implementation of individual project components.

6. Component 1: Development and Consolidation of Tourism Services. Technical specifications and bidding documents for the rehabilitation and access to the tourist site Ollantaytambo and for the rehabilitation of three observation points in the Sacred Valley (including building permits and environmental certifications) have been completed. Preparation of technical specifications and bidding documents for the rehabilitation and access to the tourist site Pisac is ongoing. However, none of the expected works will be undertaken, given the lack of time to complete the works before the loan proposed closing date (June 15, 2019).
7. The consulting service to implement the Competitive Fund for Tourism was launched, a working plan was prepared, an initial logo and campaign were launched, and 105 winners were selected to receive technical assistance and support (small goods) under the project. However, as indicated above, the World Bank declared misprocurement without cancellation for this contract following a post-procurement review. Finally, while a few terms of reference for Technical Assistance for Strengthening of Tourism Services are ready, the consultancies will not be launched given the lack of time to complete them within the remaining proposed project period (June 15, 2019).

8. Component 2: Integrated Solid Waste Management. The construction of the sanitary landfill in Urubamba province has been completed, although the site has not yet been opened because of the lack of capacity to properly manage the site. The declaration of misprocurement for the works hampered the finalization of the procurement of the associated services and goods, and hence the overall operation of the landfill. The critical contracting processes that will need to be completed are: consulting services to reinforce the capacity of Urubamba province for the operation and maintenance of the landfill (including technical and financial operational plan); building two wells to provide access to water to two communities near the landfill (in compliance with Bank safeguards); and, special equipment for the operation of the landfill. Trucks and equipment for the collection of waste have been purchased and distributed.

9. Technical specifications and bidding documents for the construction of the landfill for Calca province have been finalized, including building permits and environmental certifications. However, none of the bids received met the minimum criteria. Construction of this landfill will not be financed under the project as the works cannot be completed by the loan closing date.

10. Component 3: Disaster Risk Management and Disaster Preparedness. Technical specifications for risk mitigation works in the Ccochoq river basin in the province of Calca were completed, but the bidding process for works will not be launched as the works cannot be completed by the loan closing date. The preparation of technical specifications and bidding documents for the Early Warning System for the Patacancha Valley in Ollantaytambo and the Kitamayu Valley in Pisac have almost been completed. However, the Early Warning System will not be procured under the project due to lack of time to purchase and install the system before the loan proposed closing date (June 15, 2019).

11. Component 4: Institutional Strengthening, Management and Monitoring and Evaluation. Implementation of this component has been consistently affected by staff problems (lack of key personnel and high turnover) and the lack of progress of the other three components.

12. In October 2018 there was an election for a new Governor for the regional government of Cusco and for all the municipalities, including Urubamba. The new elected administrations took over in January 2019, including a new Governor of the Cusco Regional Office, a new Director of COPESCO and a new Mayor of the Province of Urubamba. The new administration has requested an extension of the loan closing date. Along with a detailed implementation plan, focusing on the operational capability/know-how and sustainability of the Urubamba sanitary landfill.

13. This restructuring seeks a closing date extension from January 31, 2019 till June 15, 2019 (four and half months). This will be the first project closing date extension and it will be the only change to the project. The World Bank team will undertake very close support and monitoring of the proposed implementation plan over the extension period and will carefully evaluate the actual implementation results and the fulfillment of the commitment of the new administration in May 2019.
### III. DETAILED CHANGES

#### LOAN CLOSING DATE(S)

<table>
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<tr>
<th>Ln/Cr/Tf</th>
<th>Status</th>
<th>Original Closing</th>
<th>Revised Closing(s)</th>
<th>Proposed Closing</th>
<th>Proposed Deadline for Withdrawal Applications</th>
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