



## 1. Project Data

**Project ID**

P117318

**Project Name**

PE Cusco Regional Development

**Country**

Peru

**Practice Area(Lead)**

Urban, Resilience and Land

**L/C/TF Number(s)**

IBRD-83060

**Closing Date (Original)**

31-Jan-2019

**Total Project Cost (USD)**

1,415,220.10

**Bank Approval Date**

22-Nov-2013

**Closing Date (Actual)**

15-Jun-2019

**IBRD/IDA (USD)**
**Grants (USD)**

Original Commitment

35,000,000.00

0.00

Revised Commitment

16,053,785.00

0.00

Actual

1,415,220.10

0.00

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## 2. Project Objectives and Components

### a. Objectives

According to the Financing Agreement (FA, page 6) and the Project Appraisal Document (PAD, paragraph 16), the objective of the project was 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.

This review will assess how the operations achieved the following objectives:



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

According to the guidelines, a split rating did not apply because there was no change in the project objectives throughout the project implementation period, even though the scope of the project shrank as project commitments decreased through cancellation of funds. The lowering of project scope was commensurate with the lower commitment size and the project would be assessed according to the unchanged PDO and revised scope.

**b. Were the project objectives/key associated outcome targets revised during implementation?**

No

**c. Will a split evaluation be undertaken?**

No

**d. Components**

**1. Development and Consolidation of Tourism Services** (US\$25 million, of which US \$18.8 million was Bank-financed at appraisal, reduced to US\$16.65 million after the 2017 restructuring, further reduced to US\$3.52 million after the 2018 restructuring (see below); US\$0.40 million, actual). This component would finance the expansion and improvement of existing infrastructure to improve the quality and coverage of tourism services in the Sacred Valley and surrounding areas. There were three original subcomponents: (i) expanding and improving infrastructure (e.g., improve access to sites, construct three observation points (*miradores*), expand internal walkways, and improve signage) to consolidate "classic" tourist attractions; (ii) developing and implementing a pilot competitive fund (*Fondo Concursable*) that would offer technical assistance to private, small, and micro-enterprise entities to improve their competitiveness and tourism products and services; and (iii) strengthening the institutional capacities of agencies and institutions involved in tourist operations in the Sacred Valley to commercialize and market tourist products and services for the domestic and international markets; and collect tourism baseline data for use in evaluating and analyzing the sector and its development. The 2018 restructuring reduced allocation for this component, cancelled this third sub-activity, cancelled works in the Ollantaytambo, Pisac archaeological sites under the first sub-component, and reduced the scope of the Competitive Fund. This resulted in reduced scope and outputs (see Section 4. Achievement of Objectives below).

**2. Integrated Solid Waste Management** (US\$18.4 million, of which US\$13.8 million was Bank-financed at appraisal, reduced to US\$10.42 after the 2017 restructuring, further reduced to US\$8.77 million after the 2018 restructuring; US\$0.79 million actual). This component would finance 3 new landfills in each of the provinces of Cusco, Calca, and Urubamba; technical assistance to strengthen provincial and municipal administrations' institutional capacity to deliver local solid waste management services; investments in district-level solid waste services to improve collection, recycling, and cleaning of streets and public spaces; and local communication campaigns to promote adequate waste management practices and environmental education. After the 2016 MTR and the 2017 restructuring, this component was reduced with the cancellation of all Cusco solid waste management investments. This included the Cusco landfill because the Cusco Municipal Council decided not to delegate the construction responsibility of the landfill to the



Cusco Regional Government (CRG) as required under the project. After the 2018 restructuring the Calca landfill was not constructed because of lack of time to complete the works.

**3: Disaster Risk Management and Disaster Preparedness** (US\$2.6 million, of which US\$1.9 million was Bank-financed at appraisal, increased to US\$4.92 million after the 2017 restructuring, reduced once again to US\$2.48 million after the 2018 restructuring; US\$0.17 million actual). This component originally financed four subcomponents: (i) an early warning systems (EWS) for the flooding of the Vilcanota in the Sacred Valley and Patacancha River in Ollantaytambo; (ii) an integrated approach to reducing the geological and climatic risks in the micro basin of K'itamayú in Pisac; (iii) an integrated approach to mitigate external geodynamic risks in the Ccochoq river basin in Calca Province; and (iv) an updated Disaster Risk Management Plan for the Sacred Valley, including evacuation plans for tourists, evacuation training, and simulation exercises with the participation of tourists and local residents. The 2017 restructuring increased the allocation for this component and amended the financing of the early warning system in Patacancha River in Ollantaytambo (later dropped) and of the K'itamayú River in Pisac. After the 2018 restructuring, the risk mitigation works in the Ccochoq river basin were cancelled. The early warning system of the Vilcanota River was cancelled except for the preparation of the administrative technical files, the works of the K'itamayú and Ccochoq Comprehensive Treatment sub-projects, and the Emergency Preparedness and Risk Reduction Plan were dropped or cancelled.

**4: Institutional Strengthening, Management and Monitoring and Evaluation** (US\$9.6 million, of which US\$0.5 million was Bank-financed at appraisal, increased to US\$3.0 million after the 2017 restructuring, then reduced to US\$1.28 million after the 2018 restructuring; US\$0.06 million actual). This component financed capacity building of the institutions involved in the operation of tourism activities in the Sacred Valley, and *Comisión Especial para Coordinar y Supervigilar el Plan Turístico y Cultural Perú UNESCO* (Special Commission for the Coordination and Supervision of the Tourism and Cultural Plan Peru UNESCO or COPESCO), including its Project Coordination Unit (PCU). Activities to be financed included (i) the collection of baseline data for later evaluations and follow up analyses; and (ii) project management, audits, procurement, safeguards, financial management, and monitoring and evaluation (M&E) requirements of the project. The 2017 restructuring added US\$2.5 million in place of reduced counterpart funding. After the 2018 restructuring, activities in institutional strengthening were further reduced.

#### e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

**Project Cost:** The total project cost reached US\$52 million. Disbursements reached US\$1.4 million. Below is a table to clarify how the project loan evolved:

World Bank Financing	Total Cost	WB(1)	WB (2)	WB (3)
	From FA	Original Allocation	2017 Restructuring	2018 Restructuring
Components	(In US\$ M)			
(1) Tourism Services	25.0	18.8	14.65	2.23
(1)(a) Competitive Fund			2.0	1.29
(2) Solid Waste Management	18.4	13.8	10.4	8.77



(3) Disaster Risk Management	2.6	1.9	4.9	2.48
(4) Project Management	6.1	0.5	3.00	1.28
TOTAL	52.1	35.0	35.0	16.05

**Financing:** The International Bank for Reconstruction and Development (IBRD) financed this project.

**Borrower Contribution:** The Government committed US\$17.1 million in counterpart financing. Restructuring reduced this to US\$12.6 million. No Government contributions were disbursed.

Borrower Contribution	Total Cost	From the Govt (1)	From the Govt (2)	From the Govt(3)
	From FA	Original Commitment	2017 Restructuring	2019 Restructuring
Components	(In US\$ M)			
(1) Tourism Services	25.0	6.2	4.88	0.49
(1)(a) Competitive Fund			0.67	0.28
(2) Solid Waste Management	18.4	4.6	2.54	1.93
(3) Disaster Risk Management	2.6	0.6	2.59	0.54
(4) Project Management	6.1	5.6	2.59	1.93
TOTAL	52.1	17.1	13.26	5.17

**Dates:** The project was approved on November 22, 2013 and became effective on November 3, 2014. The Mid Term Review (MTR) was conducted on September 5, 2016. The project was expected to close on January 30, 2019 but was extended by another four and a half months to June 15, 2019 following the last restructuring (see below):

- On June 22, 2017, following the project's MTR, the project was restructured to prioritize activities that were deemed achievable within the remaining project time frame, such as the Urubamba and Calca landfills, tourism activities under Component 1, and some of the disaster risk prevention activities under Component 3. This restructuring cancelled the construction of the Cusco landfill (Component 2); a few subprojects under Component 3; and reduced the funds available for the Competitive Fund for Tourism (Component 1) and activities under project management (Component 4).
- On June 28, 2018, due to the project's continued poor performance, the government requested a partial cancellation of US\$18.95 million.
- On October 31, 2018, the project was restructured to introduce changes to the results framework, adjust the components and costs, and reallocate resources among disbursement categories.
- On January 30, 2019, the loan closing date was extended to June 30, 2019.
- On November 6, 2019, US\$14.6 million was cancelled.



### 3. Relevance of Objectives

#### Rationale

The 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 -- was substantially relevant to the Cusco Towards 2021 Strategic Development Plan (*Plan Estratégica de Desarrollo Regional Concertado, Cusco a 2021*). The plan outlined the development goals of the region and identified infrastructure investments to support the growth of the tourism sector with due consideration for environmental sustainability and disaster risk mitigation. The Cusco Regional Government (CRG) prepared a supporting public investment program called "Consolidation and Diversification of the Tourism Product - Sacred Valley of the Incas among the Provinces of Cusco, Calca, and Urubamba in the Cusco Region." This program included four components: (i) entrepreneurial competitiveness with the support of a pilot competitive fund for micro and small enterprises. The pilot fund would enhance the businesses' access to the tourism market. (ii) consolidation of classic tourist attractions and diversification of tourism offerings, integrated solid waste management and disaster risk management; (iii) technical assistance for the coordination of public-private partnerships and commercialization of tourism services; and (iv) program management and monitoring.

The PDO was also relevant to the World Bank's Country Partnership Framework 2017-2021 (CPF) for Peru. The project contributed to achieving Objective 8: Strengthen the management of natural resources. One indicator, industrial and municipal waste disposal capacity, was later excluded after the 2019 CPF review due to difficulties in implementation. The PDO remained relevant to the revised 2019 CPF, particularly to Objective 7, (previously Objective 8) to strengthen the management of natural resources, and the revised Objective 8, to improve disaster risk planning and financial management.

#### Rating

Substantial

### 4. Achievement of Objectives (Efficacy)

#### OBJECTIVE 1

##### Objective

- to improve the quality of tourism in the provinces of Calca, Urubamba, and Cusco

##### Rationale

**Theory of Change:** The quality of services offered by the tourism sector in the Sacred Valley formed by Cusco, Calca, and Urubamba provinces would be improved by expanding and improving the infrastructure supporting the existing tourist attractions. These improvements included observations points, internal trails, signage, lighting, traffic distribution points, tourist centers, toilets, parking lots, and others. Technical assistance would strengthen the delivery of tourist services by collecting tourist related data to inform the



development of the tourism sector in the Sacred Valley and improving the quality of tourist products for domestic and international consumption. A pilot competitive fund for tourism would be offered to small businesses in the Sacred Valley to support this endeavor. Critical assumptions underlying this theory were (i) COPESCO having sustained capacity to implement these activities; and (ii) civil society participation and support for these improvements..

## **OUTPUTS:**

- Technical specifications for the road rehabilitation and archaeological works in Pisac were under preparation at closing. This activity was dropped after the 2018 restructuring. The contract for the preparation of technical design was under arbitration (The original target of implementing road rehabilitation and archaeological works in Pisac was dropped at restructuring). According to the March 12, 2020 Bank team email to IEG, this technical design has not been completed.
- This activity was dropped after the 2018 restructuring. The activity will be completed with government resources in 2020. Technical specifications for the road rehabilitation and archaeological works in Ollantaytambo were prepared. (The original target of implementing road rehabilitation and archaeological works in Ollantaytambo was dropped at restructuring).
- Technical specifications for the three observation sites (*miradores*) were completed. Construction was underway in November 2019 and scheduled for completion in early 2020 with government funds (The original target of constructing 3 observation sites was not met).
- Terms of reference were completed for technical studies to evaluate the maximum capacity at the classic tourism attractions; appropriate fee rate for the various sites in the Sacred Valley; operation and maintenance (O&M) costs of the assets linked to tourism services; and fee collection and distribution mechanisms and pattern in the use of tourism fees. These studies were not contracted, thus not meeting targets.
- The competitive fund for tourism was launched. A working plan was prepared, an initial logo, and campaign were launched (The original target was unmet because the World Bank declared a misprocurement of the contract for consulting services to launch the fund).
- 50 small enterprises registered to benefit from the competitive fund program to receive technical assistance and support for small goods (The target was unmet because the competitive fund was not implemented).

## **OUTCOMES:**

- No tourists or residents benefited because the works were not executed (The original target was 1,146,719; the revised target of 751,683 individuals was unmet. Also the target of 49.4 percent female was unmet).
- None of the works or improvements planned for the Pisac and Ollantaytambo archaeological sites were carried out due to significant delays in administrative processes required to obtain authorizations.
- In June 2018, the Bank declared a misprocurement without cancellation of the consulting services contract to implement the competitive fund. The CRG was reported not likely to execute this contract using counterpart funds.
- The PDO outcome indicator that measured the reduction in dissatisfaction of the upgraded tourism sites was dropped after 2 restructurings and cancellations. The baseline survey was not carried out. In addition, the intermediate results indicator that measured existing tourism sites equipped with





improved infrastructure installations was also dropped. Meanwhile, the pilot competitive fund for small businesses in the Sacred Valley was reduced but the target was not revised.

**Rating**  
Negligible

## OBJECTIVE 2

### Objective

- to improve solid waste management services in the provinces of Calca, Urubamba, and Cusco

### Rationale

**Theory of Change:** The quality of solid waste management services in the Sacred Valley formed by Cusco, Calca, and Urubamba provinces would be improved by financing construction and providing technical assistance. Activities such as constructing landfills, conducting campaigns to enjoin the public in environmentally sound solid waste management practices, building local capacity in delivering solid waste management services to constituents and tourists, supporting both formal and informal recyclers as provided in Social Inclusion Plans, and purchasing equipment and financing works for collecting, recycling, and street sweeping would improve solid waste management in the project areas. The underlying assumptions were COPESCO's sustained capacity and agreed cooperation from the local authorities to implement the project activities.

### OUTPUTS:

- The Urubamba landfill was completed with a 25 metric ton capacity (The original target was 390 metric tons; the revised target of 25 metric tons was achieved, but with government funds). The Cusco landfill faced delays, stakeholders opposed its construction. The Cusco landfill (350 metric tons) was dropped after the 2017 restructuring. The Calca landfill (15 metric tons) technical specifications, permits, and bidding documents were completed. The construction was later dropped in the 2018 restructuring (original target 3 landfills, revised target 2 landfills, only 1 was constructed but using government funds, target unmet).
- The consulting service for the Operational Plan to professionalize landfill operations was contracted in July 2019 but was scheduled for completion using government funds only by December 2019, thus not meeting the target.
- Consultants were contracted to set up the financial management trust fund (*Fideicomiso*) for the financing of the solid waste management activities and landfill operation. However, the consultants contracted to set it up resigned without completing the contract. The consulting firm preparing the operational plan above was still preparing a proposal to replace *Fideicomiso* with another mechanism, not meeting target. According to the March 12, 2020 Bank team email to IEG, instead of using *fideicomiso*, the provincial municipality of Urubamba was currently updating existing inter-municipal agreements to confirm the roles, responsibilities, and payment schemes with participating districts.
- The technical studies for the implementation of the Social Inclusion Plan for Informal Recyclers (involving 12 waste pickers in Urubamba province) were completed. The plan was implemented one month after project closing, not meeting target. After closing, the social inclusion plan for Urubamba waste pickers was completed. The plan included updating the registry of 18 waste pickers in the



province, training, and formation of segregator associations. Segregators were included in the municipalities' waste management processes. The social inclusion plan was completed after project closing, in July 2019 (The original target was 102 households; the significantly downscaled target of 11 households was unmet).

- The construction contract for two wells for the communities near the landfills under the Rural Action Plan was not awarded before project closing but was planned for completion using government funds.
- The acquisition and delivery of vehicles and equipment for solid waste collection for four municipalities in Calca and three municipalities in Urubamba were completed.
- The acquisition of special equipment for the operation of the landfills of Calca and Urubamba was completed. Payment for the acquisition of this equipment was pending on the loan closing date and would be completed with government funds.

## **OUTCOMES:**

- Targets were not achieved. Some communities feared contamination risks and opposed the construction of two of the three sanitary landfills in the Provinces of Cusco and Calca. The Cusco landfill faced delays. Stakeholders opposed its construction. The Cusco landfill was dropped after the 2017 restructuring. The Calca landfill was not completed because a neighboring community opposed its construction and expressed concerns related to land purchase compensation. The construction was later dropped in the 2018 restructuring because it would not be completed in time. In November 2019, COPESCO informed the Bank that the technical design was adapted to Peru's public investment regulation. Opposition to the landfill was reported to have been overcome. According to the March 12, 2020 Bank team email to IEG, the new COPESCO management has reportedly secured necessary community and institutional agreements, and government resources to build the landfill in 2020.
- No tourists or residents benefited from planned solid waste management improvements because these were not implemented (waste collected and disposed in one of the sanitary landfills) in the tourist areas (The original target was 1,146,719; the revised target of 751,683 individuals was unmet).
- The Urubamba landfill was completed with counterpart funds. In June 2018, the Bank declared that the construction contract was a misprocurement without cancellation. The contract was determined to have not followed the Bank's procurement guidelines. In particular, Section 2.59 - "The Borrower shall award the contract within the period of the validity of the bids, to the bidder who meets the appropriate standards of capability and resources and whose bid has been determined (i) to be substantially responsive to the bidding documents and (ii) to offer the lowest evaluated cost."
- Three municipalities in Urubamba and four municipalities in Calca were provided with equipment but not works for improved collection, recycling, and street sweeping (The original target was 16 municipalities; the revised target of 12 municipalities was partially achieved).

**Rating**  
Negligible

## **OBJECTIVE 3** **Objective**





- to increase the resilience of the tourism sector to the impacts of natural disasters in the provinces of Calca, Urubamba, and Cusco.

### **Rationale**

**Theory of Change:** The tourism sector in the Sacred Valley formed by Cusco, Calca, and Urubamba provinces would increase their resilience to natural hazards. Resilience would be achieved by integrating disaster risk management and early warning systems for hazards. The regional strategic plan would be updated using these plans to prevent and reduce disaster risks. Emergency plans for tourists would be established. Assumptions include COPESCO's sustained capacity and cooperation from the local authorities to implement the project activities.

### **OUTPUTS:**

- Technical specifications for early warning systems for Vilcanota, Patacancha, K'itamayu and Ccochoq subprojects were completed but not implemented. The early warning systems for Vilcanota and Ccochoq were withdrawn after restructuring and those for Patacancha, and K'itamayu were likewise dropped but, according to the March 12, 2020 Bank team email to IEG, the final designs for Patacancha were completed in September 2019 reportedly with government funds (target unmet).
- Terms of Reference for the Prevention and Risk Reduction Plan was completed but no emergency preparedness plans were established for tourists. These plans were dropped after restructuring. None of the early warning systems or integrated disaster risk management approach were completed due to the cumbersome review and clearance procedures for the technical specification by the national, regional, and municipal governments.
- None of the activities under planning and capacity building for disaster risk management were contracted, not meeting targets.
- The Strategic Regional Plan for prevention and reduction of disaster risk was updated, achieving the target.
- No tourists or residents were covered by a functioning early warning system for natural disasters (The original target of 703,044 individuals was dropped after restructuring).

### **OUTCOMES:**

- Except for the updated strategic regional plan for prevention and reduction of disaster risk, no other targets under this objective were achieved.

**Rating**  
Negligible

## **OVERALL EFFICACY**

### **Rationale**



Most of the target indicators for achieving the objectives were not reached. Technical specifications and bidding documents were prepared or completed but most were not executed using project funds. Some activities were completed using the government's own resources or were planned to be completed by the government after project closing.

**Overall Efficacy Rating**  
Negligible

**Primary Reason**  
Low achievement

## 5. Efficiency

**Economic and Financial Efficiency:** At appraisal, using an unexplained 9 percent discount rate, the project yielded a net present value (NPV) of over US\$225 million and estimated an internal rate of return of 28 percent (PAD, paragraph 40). Benefits came from an increase in effective demand for services from over 180,000 new tourists by 2020 and further increasing to 582,000 by 2026. Under this scenario, private sector profits from the increase in tourism activities would rise from US\$9.7 million in 2017 to US\$111 million in 2027. According to the PAD (Annex 6), the financial sustainability of the project estimated a multiplier of 1.446, meaning that every US\$0.36 of spending due the project would increase the country's Gross Domestic Product by US\$0.52 (or 1.446 *nuevos soles*). This multiplier effect was based on the assumption that indirect impacts on diverse value chains were linked to increased tourism and increased demand for goods and services associated with this increase. Direct benefits of tourism activities were payments made to the factors of producing goods and services to tourists.

The MTR identified bottlenecks in implementation. Costs increased for the Calca and Urubamba landfills because project implementation was delayed for four years after the initial design. The Resettlement Action Plan and the Indigenous Peoples Plans needed to be updated because of cancelled activities. Costs for the disaster risk management component of the project increased to over US\$12 million because the MEF allocated minimal funding (US\$2.6 million) at appraisal. At closing, computations made during appraisal were not replicated because almost all activities were not completed and outcomes were not achieved.

**Administrative and Operational Efficiency:** Implementation delays came from a lack of counterpart budget, lack of key personnel, and high staff turnover at COPESCO. Investments could not be prepared for implementation because the Ministry of Economy and Finance (MEF) did not authorize COPESCO to request further disbursements following the declaration of misprocurement by the World Bank. The Mayor of Cusco expressed unwillingness to delegate the responsibility of constructing the sanitary landfill in Cusco to the CRG. Slow progress in preparing investments to be executed led to low disbursements. The Project Coordination Team and the Technical Working Groups did not function during implementation. Coordination problems continued among the different agencies at the local, regional, and national levels particularly with regard to including local investments in the national annual investment plans. When the annual investment planning was replaced by a multi-year investment planning in 2016, the project was further delayed because of confusion regarding applicable procedures. There was an overall weakness in procurement capacity, financial management, and safeguard procedures throughout implementation. COPESCO management and the CRG showed a lack of ownership, interest, and commitment to the project. By the 2018 restructuring, the renewed effort from new management was hampered by too many legacy issues and constraints to turn the project around in the remaining five months of the project.



In summary, the project's administrative and operational inefficiencies turned directly into unmet outcome targets. Most project activities were not completed and no comparable calculations of economic or financial efficiencies could be carried out.

## Efficiency Rating

Negligible

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 <input type="checkbox"/> Not Applicable
ICR Estimate		0	0 <input type="checkbox"/> Not Applicable

\* Refers to percent of total project cost for which ERR/FRR was calculated.

## 6. Outcome

The relevance of objective was rated substantial. The efficacy of the three objectives was rated negligible because of unmet targets. Overall efficacy was rated negligible. Efficiency was rated negligible as well. According to the guidelines, outcome was rated highly unsatisfactory.

### a. Outcome Rating

Highly Unsatisfactory

## 7. Risk to Development Outcome

The project did not achieve any development outcomes. Therefore, the ICR did not identify any risks to outcomes. However, the ICR did report that in the last few months of the project, activities to be completed were identified to avoid unintended negative outcomes. These included steps to ensure the safe operation of the Urubamba landfill and the adoption of associated social safeguards. The ICR reported these activities were completed or were currently being implemented with government funds and scheduled for completion by 2020. The Cusco Regional Government and COPESCO committed to complete several key project subcomponents with its own resources after project closing. There was no indication how the project would monitor these activities.



## 8. Assessment of Bank Performance

### a. Quality-at-Entry

The project was designed based on the knowledge and experience gathered from the *Proyecto de Rehabilitación y Gestión del Valle Vilcanota (PRRVV or Vilcanota Valley Rehabilitation and Management Project)* and other Bank-financed projects in the tourism, solid waste management, and disaster risk management sectors. The project design considered the following lessons:

- A simple design meant a well-focused PDO supported by a limited number of strongly linked activities. In the case of PRRVV, the project addressed multi-sectoral issues - from cultural heritage preservation to regional development to provision of basic infrastructure services. Such a complex range of themes required multiple institutions and large teams from both the Bank and the Government sides. That project was too large in scope and included capacity strengthening activities and technical assistance.
- A decentralized implementation arrangement was appropriate since the country began its decentralization policy in 2002 and the project area spanned a specific region. In the case of PRRVV, the original Project Coordination Unit was based in Lima and coordination and restructuring the project proved expensive and time consuming.
- Establishing efficient inter-institutional coordination mechanisms with clear lines of communication among stakeholders could not be replaced by participatory processes during project preparation. Poor inter-institutional coordination and unclear lines of communication tended to create delays and contradictory messages.

Lessons from other Bank-financed projects in the tourism, solid waste, and disaster risk management sectors included the following (PAD, paragraph 29):

- Maximizing the value of existing cultural assets could benefit local economic development. This meant linking cultural heritage sites with poverty reduction efforts such as promoting participation by local communities in income generating micro enterprise activities and creating employment opportunities in the tourism sector.
- Using an integrated approach could sustain solid waste management systems. This meant establishing institutional structures early in the project, linking fees to service improvements or using fiscal intercept mechanisms agreed with local communities.
- People and assets tend to concentrate in areas prone to natural hazards. Natural disasters and losses associated with its aftermath appear to be on the rise. Regions prone to disasters understand the need to reduce vulnerability to these hazards as an important aspect of project design.

The project was strategically relevant and supported activities outlined in the CRG's "Consolidation and Diversification of the Tourism Product - Sacred Valley of the Incas among the Provinces of Cusco, Calca, and Urubamba in the Cusco Region." The approach supported the decentralization policy of the government and focused on regional development as a contributing factor to the country's growth.



COPESCO prepared feasibility studies for the solid waste management and the disaster risk management components. Alternatives were assessed for the collection, recycling, and disposal of solid waste in the three provinces. Peruvian officials visited Colombia to assess alternatives. The tourism subprojects were deemed viable, designs appropriate to meet the project objectives. The institutional arrangements were adequate for implementation and compliance with Bank safeguards requirements, and cost effectiveness.

However, the project suffered from major shortcomings at entry. Project design was complex. Coordination across various organizations, levels of government, and cumbersome bureaucratic processes marked the institutional arrangements. Some activities required community buy-in but were not accompanied by adequate informational campaigns. The mitigation measures adopted to address the risks identified at appraisal (PAD, paragraph 37) were not sufficient as proven at implementation:

- Availability of counterpart funding was noted as a high risk because of the approaching 2014 elections. According to the March 12, 2020 Bank team email to IEG, the mitigating measure was contained in the subsidiary agreement between the Ministry of Economy and Finance and CRG. MEF assigned CRG as responsible for counterpart funds.
- The project was expected to be implemented in a highly sensitive social and cultural heritage context. Mitigation measures included those that were implemented under the PRRVV such as (i) designs to minimize potential environmental and social impacts and risk; (ii) strong social and environmental staff; (iii) training programs to build capacity of social and environmental staff; (iv) consultation process for subcomponents; (v) communication strategy to build broad community support concerning the location of new waste disposal sites; and (vi) effective grievance redress mechanisms.
- Implementation capacity was identified as a risk. COPESCO may not attract new staff in addition to existing capacity. Mitigation measures included an agreed staffing plan with strong terms of reference for key personnel, adequate operating budget supported by the project, and capacity building assistance. A Project Coordination Committee at the regional level and a Technical Working Group were created in 2014 to operationalize decisions made by the national level Coordination Committee. The project was the first Bank financed operation to be implemented by a regional government. There was a risk that intergovernmental difficulties would prevail such as the Ministry of Economy and Finance (MEF) not approving local infrastructure investments for inclusion in the *Sistema Nacional de Inversion Publica* (SNIP or National Public Investment System). Mitigating measure came from both CRG and MEF committing to finalizing the investments on time for inclusion in SNIP.
- Political risk from the 2014 election posed a risk to the support from the government, at the national, regional, and subnational levels. A change in political leadership may shift the focus to other competing development issues. Mitigating measure included broad consultation with stakeholders at the regional and municipal levels to ensure ownership.
- Reputational risk was noted due to the project's high visibility and geographic focus on the Sacred Valley and Cusco as a UNESCO World Heritage site as entry to Machu Picchu. In addition, the existing improperly managed Cusco waste dump may not be properly closed and could harm vulnerable communities living proximate to the dump. The mitigating measure included technical assistance to the Province of Cusco to support closure of the dump, economic development and delivery of basic services to the communities near the existing dump and the new landfill in compliance with safeguard instruments under the project. CRG would mitigate the risk of nonparticipation by working with the affected communities, raising awareness of the project



benefits, delivering basic services, increasing road access, and providing for economic development activities.

There were major shortcomings in the quality of entry such as the complex design and insufficient risk mitigation measures. Implementation risks were correctly identified but mitigation measures fell short, due to changes in the level of commitment of relevant actors and inadequate assessment of implementing capacity. These led to a rating of unsatisfactory.

### **Quality-at-Entry Rating** Unsatisfactory

#### **b. Quality of supervision**

The Bank team supervised the project adequately as evidenced by more than 20 supervision missions and technical visits to Cusco over the 5-year implementation period. Several team members including the team leader were based in Lima. The focus on development impact was evidenced by technical assistance efforts to help the PIU overcome the implementation problems. Regular conference calls with the PIU monitored the project, addressed PIU concerns, revised the project time frame, and proposed corrective measures. The Country Director, the Operations Manager, the Regional Safeguards Advisor, and the Practice Manager visited Cusco on several occasions to discuss the main issues with senior officials. In addition, the Bank hosted a workshop for CRG officials to better understand the project objectives, scope, the role of the World Bank and its policies and procedures (ICR, paragraph 66).

According to the ICR, the task team candidly reported problems in the Aide Memoires, management letters, and the Implementation and Supervision Reports (ISR). The team highlighted issues that required attention, along with agreed actions. At the Mid Term Review (MTR), the World Bank's Global Practice organized an internal Quality Control meeting to identify solutions for the various implementation bottlenecks. The Bank proposed several measures, such as dropping certain components and partial cancelation of the loan, to focus on the activities that could be completed within the project timeframe. However, there was no agreement reached with the CRG on these corrective measures. Prior to loan closure, the task team worked with the new COPESCO management and the new CRG to ensure that pending activities that were crucial for sound operation and sustainability of the Urubamba landfill, as well as those included in the social safeguards instruments, would be implemented (ICR, paragraph 67).

As the government began implementation, mitigating measures to address the risks identified at appraisal proved inadequate. The government reduced its counterpart commitment after a change in political leadership following the 2014 elections. A lack of government commitment marked project implementation. Compliance with environmental and social safeguards was moderately satisfactory. There was no grievance mechanism reported in the ICR. COPESCO staff members with experience in World Bank financed projects left by the time of loan effectiveness. COPESCO management displayed a lack of commitment to the project as evidenced by a lack of key staff or high staff turnover. Lack of administrative and fiduciary capacities to award and manage infrastructure projects led to declarations of misprocurement following contract reviews. The Project Coordination Committee at the regional level and a Technical Working Group created in 2014 to operationalize decisions made by the national level Coordination Committee did not function due to leadership changes in regional governments. In addition, activities related to reducing disaster risk were delayed because other national agencies became increasingly





involved as MEF's role diminished during project implementation. By December 2016, SNIP was replaced by *Sistema Nacional de Programación Multianual y Gestión de Inversiones* (INVIERTE.PE or National Multiannual Programming and Investment Management System). The change caused more delays in implementation because there was now confusion over which procedures applied and which level of government was responsible at each step of the investment. Communities became skeptical after delays in implementing planned investments. Opposition to planned sanitary landfills were fed by a lack of awareness of project benefits, contamination fears, and perceived unjust compensation packages for land acquisition. These concerns led to the cancellation of the landfill components.

The Bank's considerable supervision efforts could not overcome the project's design and risk mitigation shortcomings. There was no information regarding transition arrangements to make sure that commitments to complete project activities with internal resources would be carried out.

### **Quality of Supervision Rating**

Moderately Unsatisfactory

### **Overall Bank Performance Rating**

Unsatisfactory

## **9. M&E Design, Implementation, & Utilization**

### **a. M&E Design**

The Theory of Change was simply stated. Four components promoted activities that led to outputs that supported the outcomes to achieve the PDO. Indicators were reflected in the Results Framework. Outcome indicators encompassed the clear and specific objectives. Most of the intermediate outcome indicators captured their contribution to achieving the PDO. One intermediate outcome indicator, for example, measured only whether the pilot competitive fund was launched but there was no measure for its utilization. PDO level indicators (expressed in the number of beneficiaries) were to be provided by Peru's official sources, such as the National Institute for Statistics and Information, the Committee of Integrated Tourism Cultural Services of Cusco, as well as the provincial municipalities for Cusco, Calca, and Urubamba. Indicators presented in the Results Framework were specific, relevant, measurable, and achievable within the project period. There was no baseline but preparing one was to be carried out before construction works. A final survey was to be carried out after completion of works.

### **b. M&E Implementation**

M&E was implemented by the *Proyecto Especial Regional Plan COPESCO* (Special Regional Project of Plan COPESCO otherwise known as PER Plan COPESCO). This was a government agency within the Cusco Regional Government (CRG) that was originally designed in 1969 as the Special Oversight Commission of the Touristic Cultural Plan Peru UNESCO. In 2004, PER Plan COPESCO was formally integrated to the CRG to implement tourism infrastructure investment to support socioeconomic development in the Cusco region and was no longer affiliated with the United Nations. According to the ICR (paragraph 47) the project did not generate planned annual reports. No data was collected to



measure progress towards achieving the PDOs. No intermediate result indicators were monitored. As a result of the 2018 restructuring, tourism infrastructure activities were dropped, and the baseline survey was cancelled. M&E as designed was not implemented.

### c. M&E Utilization

The M&E system was not utilized for project monitoring.

### M&E Quality Rating

Negligible

## 10. Other Issues

### a. Safeguards

The project was assigned an Environmental Category A for the purposes of OP/BP4.01, which requires a full environmental assessment. The project triggered the following safeguards: Environmental Assessment (OP/BP 4.01); Natural Habitats (OP/BP 4.04); Physical Cultural Resources (OP/BP 4.11); and Safety of Dams (OP/BP 4.37). An Environmental Safeguards Management Framework was prepared including an Indigenous Peoples Planning Framework and a Resettlement Policy Framework. Under the solid waste management component of the project, each proposed landfill carried out an Environmental and Social Impact Assessment (ESIA), including an Environmental and Social Management Plan (ESMP). The Calca and Urubamba landfills ESIA were completed and included Indigenous Peoples Plans (IPPs). The Cusco and Calca landfills ESIA included Abbreviated Resettlement Plans. The Urubamba IPP underwent consultations and was disclosed, whereas after its own consultations, the Calca IPP was approved by only one community and was not yet approved by another. The leaders of the latter community initially expressed satisfaction with the Calca IPP but ended up opposing the construction of the Calca landfill. The lack of support by local authorities in Cusco and Calca, as well as an ineffective communications strategy contributed to both landfills being dropped from the project.

According to the ICR, beginning in December 2018 until project closing, compliance with the Environmental Assessment was rated Moderately Satisfactory. Some areas of the Urubamba landfill lacked a ditch system. There were some signs of erosion in specific areas where excess material was disposed. A dirt bridge, built by the community that built some houses in a plot adjacent to the landfill, cut across a creek outside the perimeter of the landfill and interrupted the flow of effluent. This meant heightened risk of flooding during heavy rains (ICR, paragraph 60). COPESCO informed the Bank team that a judicial order to vacate the plot adjacent to the landfill would be executed before the landfill started its operation.

### b. Fiduciary Compliance

**Financial Management:** Financial management practices reflected a lack of knowledge of World Bank fiduciary requirements. The central government adopted cumbersome procedures to allocate budgets to the regional entity. Financial audits and intermediate financial reports were submitted late. Auditors



highlighted internal control deficiencies, the low level of budget execution, documentation discrepancies (see Procurement below) and exception opinion on project financial statements. Contracting audit firms experienced delays. The audit report for 2015–2016 was submitted after a one-year delay and showed documentation discrepancies, which relate mainly to procurement processes and procedures followed by the PIU. The audit identified internal control deficiencies, and its impact on project financial statements. The 2017 audit report, which was received on June 27, 2018, had to be revised and was received on August 23, 2018. COPESCO agreed to reinforce the procurement and financial management functions for the remainder of the project to ensure compliance with Bank fiduciary guidelines and procedures.

In addition, the Ministry of Economy and Finance (MEF) stopped authorizing the Project Implementation Unit to request disbursements due to misprocurement (see Procurement below). The misprocurement required the CRG to reimburse the World Bank US\$2.45 million of ineligible expenses; a balance of US\$0.9 million was due to the Bank at project closing. Compliance with financial management was rated Moderately Unsatisfactory beginning in September 2017 and downgraded to Unsatisfactory by April 2018 until project closing (ICR, paragraph 63). The audit report for 2015–2016, was submitted in April 2018 after a one-year delay. According to the March 12, 2020 Bank team email to IEG, the final financial audit report was received in December 2019 and was found acceptable.

**Procurement:** There were serious shortcomings in procurement capacity. The Independent Procurement Review conducted in March 2018, as well as the 2015 and 2016 financial audits, identified serious shortcomings in procurement documentation. Complaints were submitted by bidders in several procurement processes. In several instances, the CRG stated that the project should use national procurement regulations, which caused confusion and delays. Despite close supervision and training for the project's procurement staff procurement performance did not improve. This was exacerbated by frequent staff changes. The high staff turnover required continuous training. When the MEF stopped authorizing the PIU from further disbursement requests following the June 2018 declaration of misprocurement, the PIU could not award contracts for project activities. From April 2018, compliance with procurement policies was rated Moderately Unsatisfactory until December 2018 when compliance was further downgraded to Unsatisfactory until project closing.

### c. Unintended impacts (Positive or Negative)

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### d. Other

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## 11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Unsatisfactory	Highly Unsatisfactory	Based on the guidelines, there was no disagreement between the ICR and the ICRR that the 3 sub-ratings lead to a Highly Unsatisfactory rating.



Bank Performance	Unsatisfactory	Unsatisfactory
Quality of M&E	Negligible	Negligible
Quality of ICR	---	Substantial

## 12. Lessons

The ICR offered the following lessons from the operations that other teams may consider for future similar projects:

- **There is a need for continuous assessment of implementing agency capacity to identify where critical interventions may facilitate progress.** Implementing agencies with limited capacity may require a more hands-on approach. In this project, with the delay in effectiveness overtaken by a change in leadership due to the elections, the key team members who were experienced in Bank processes were no longer at the helm when the project became effective. The implementing agency took time replacing key staff and there was a high turnover noted that required more frequent training to help navigate Bank requirements, particularly procurement strategies, financial, and safeguards compliance. Having the task team in the country may prove useful and allows for more frequent face time with the clients but the counterpart entities also needs to show their commitment to the project and its objectives.
- **Adequate resources are required to accompany the capacity-strengthening of weak institutions.** An institutional capacity assessment prior to appraisal may be strengthened by an integrated approach that consider the management, technical, fiduciary, and safeguards capacity that would support institutional sustainability. Such an assessment could identify critical risks that may impact project implementation and formulate appropriate risk mitigation measures. The capacity assessment prior to appraisal was not used for this project. Risk mitigation measures could introduce flexibility with procurement thresholds to respond to project needs. Projects in difficult contexts such as this project need adequate financing and investments in capacity building. In this project, project management was at 11.7 percent of total project cost.
- **Achieving specific milestones -- as the implementation experience expands and strengthens institutional capacity -- could be used to trigger a sequence of activities leading to the achievement of project objectives.** An incremental, programmatic approach may be useful for projects implemented for the first time by subnational governments with weak capacity. This project showed that the regional government was ill equipped to implement complex projects with numerous components and activities, especially as they were required to navigate complex bureaucratic processes associated with the national investment system. This project showed that a programmatic, sequential approach with a simplified project design, reasonable number of components, accompanied by building implementation capacity may be a less risky proposition.
- **A strong social sector team could help overcome sensitive community issues during implementation.** Projects with social components require that the implementation agency include a strong social team. In this project, there was a lack of such staff to support this aspect of the project. There were no clear and effective communications or social outreach



strategy to address the concerns raised by affected communities when landfill sites were selected, for example.

### 13. Assessment Recommended?

No

### 14. Comments on Quality of ICR

The ICR provided a detailed overview of the project. The report was concise and followed the guidelines. The narrative presented evidence that supported the ratings. The report was candid and accurately presented why the project did not achieve its objectives. The quality of analysis had limited results orientation because of unmet targets. Most of the activities completed were preparatory to the actual project components. Factors that contributed to the slow progress of project implementation were presented adequately. The report did highlight the consequence of the report, mainly that the project components were expected to be completed after project closing with the government's own resources, except for specific components that the government noted would not be completed. Evidence supported why the project did not achieve its objectives. Annexes were included to clarify the project's slow progress. Lessons were clear, derived from project experience, and were useful for future similar undertakings. The presentation in table form of project financing as cancellations and restructurings occurred helped clarify the progress of the project. There was only a minor inconsistency regarding dates of restructuring but was clarified in a footnote in the ICR.

#### a. Quality of ICR Rating

Substantial