



Programming Committee

For information

Expires: 27 July 2006

CP-3217

20 July 2006

To: The Programming Committee of Management
From: The Secretary
Subject: Peru. Local development window (PE-T1036). Technical cooperation profile

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Japan Special Fund Poverty Reduction Program (JPO)
Loan Enhancement Program (LEP)
Project Profile
July 12, 2006

I. Basic project data

Beneficiary Country	PERU		
Project name:	Local Development Window (Ventana de Desarrollo Local)		
Project number:	PE-T1036		
Project team:	J. Wakeham (team leader), M. Nevo, V. Vicentini, R. Huici, I. Cardona y J. Leaño (team members)		
Executing agency:	Provias Rural /Ministry of Transport and Communications (MTC)		
Beneficiaries:	Poor Rural Communities		
Date of request:	April 12, 2006		
Financing plan:	IDB (JPO):	US\$	1,500,000
	Local Counterpart:	US\$	380,000
	Total:	US\$	1,880,000
Tentative dates:	Programming Committee		
	Loan Committee		
	Bank Approval	September 2006	
Execution period:	48 months (same as the PE L1011 Rural Transport Program)		
Disbursement period:	54 months		

II. Background and problem statement

- 2.1 It is estimated that 55% of the Peruvian population is poor. However, this ratio presents a disparity between the urban and rural areas: while in urban areas this ratio approaches 42% of the population, in rural areas poverty is much more severe, reaching 78% of the population. In terms of people living in extreme poverty, the contrast between urban and rural areas is even worse. As it is shown in Table 1, one out of two persons lives in extreme poverty, while in urban areas that ratio is one out of ten. According to the geographic division, Table 1 shows that the Andean Region has the highest percentage of poor (83%) and extremely poor (61%) people.
- 2.2 The lack of basic infrastructure services, the inaccessibility to markets, and the disparity in the distribution of resources and public goods are among the main factors underlying this situation. The Bank, looking forward to alleviate rural poverty and promote development in rural areas has, since 1995, jointly financed the Rural Roads Program in Peru (RRP) with the World Bank, with the objective to improve the access of poor rural population to basic social and economic services, markets and income-generating activities, through the provision of a reliable and integrated system of rural roads and the diversification of transport means. The RRP has been focused in the 12 poorest Peruvian departments: Ancash, Apurimac, Ayacucho, Cajamarca, Cuzco,

Junin, Huancavelica, Huanuco, Madre de Dios, Pasco, Puno and San Martin¹; almost all of them are located in the Andean Region. Currently both Banks are preparing the third operation to extend the Program activities nationwide, continuing its focus in rural areas.

Table 1: Peru Poverty and Extreme Poverty Indexes

	Poor Population (in percentage)	Extreme Poor Population (in percentage)
Urban Population	42%	10%
Rural Population	78%	51%
Urban Coast	45%	8%
Rural Coast	63%	20%
Urban Andean Region	52%	18%
Rural Andean Region	83%	61%
Urban Amazon Region	62%	35%
Rural Amazon Region	74%	44%

Source: Herrera Javier, “La Pobreza en el Perú 2001”. Una Visión Departamental. INEI, Lima 2002.

- 2.3 As a result of the RRP, approximately 15,000 km of rural roads have been rehabilitated, are in good or fair condition, and receive routine and periodic maintenance. Furthermore, at a time of deep economic downturn in Peru, the Program has restored rural people’s access to basic social services, has improved and diversify the availability and affordability of rural transport services, has developed entrepreneurial capacity by setting up about 570 community-based micro-enterprises in charge of performing routine maintenance activities on rehabilitated rural roads and has acted as a catalyst for furthering local development initiatives beyond the transport sector.
- 2.4 RRP’s results are clearly evidenced through Impact Evaluations performed at the closure of the first operation and half way through the second operation, which have shown significant impacts in various domains ranging from diversification of the supply of transportation modes, reduction of transport costs (strong reduction of passenger and freight fares) and travel conditions (significant reduction of travel times

¹ It is important to mention that those departments were the poorest departments at the moment the second loan was approved (1999). Currently, that ranking might have changed.

– 68%, increased traffic of light weight vehicles, higher public transport reliability, reduction of road closures, etc), access to public services (expressed in higher levels of school enrollments and consultations to health centers), access to markets, land value, employment, agricultural wages, income diversification, increased productivity of main agricultural products, increased agricultural land use, and poverty alleviation, enhanced by the fact that during the RRP implementation period poverty increased overall considerably at the national level.

- 2.5 Better and stable roads, the permanent accessibility they provide, and the rural population's perception of a new and more allowing economic environment, produced a positive externality: the initiative of rural inhabitants to develop entrepreneurial activities, assuming risks to develop their potentialities. However, as they did not have the technical capacities to develop them, the GOP decided to include in its second phase a pilot plan named Local Development Window (LDW) to support and guide local communities in this initiative.
- 2.6 **Bank strategy.** LDW endorses the Bank Strategy for Peru (2002-2006) as it will contribute to promote social development and increase social efficiency as its activities are seeking poverty alleviation and reduce the vulnerability of the poor through empowering the rural communities to take full advantage of their potentialities due to the newly developed economic environment. LDW is not a supportive model; on the contrary, it is an innovative model oriented to generate capacities among poor communities to increase income levels and strengthen participation by local organizations and governments in the project cycle. Additionally, LDW helps raise productivity and economic competitiveness by identifying productive projects turned feasible thanks to sustained reduced transport costs and travel times as a consequence of better roads and, therefore, better accessibility between rural farmers and producers and their markets. Finally, LDW contributes to the national decentralization policy as the program itself is conceived as a decentralized system that empowers local authorities and communities who are the decision-makers. Under this model, beneficiaries from local communities can participate in direct planning and execution of initiatives enabling to better capture the preferences of the end beneficiaries and therefore enhancing the likelihood of success in generating rural development projects.
- 2.7 **Coordination with other official development institutions.** The LDW's first and second phase were developed in coordination with the United States Agency for International Development (USAID), Italian Peruvian Fund, Basque Country Fund, French Fund and Counter -Value German Fund. The same coordination activities will be adopted in the proposed third phase. In addition, this operation will coordinate with Bank's Program of Support Services to Rural Markets (1586/OC-PE), which finance business advisory services to organized groups of rural producers in six economic corridors in Peru's coastal region, while this proposed LDW will focus on extremely poor rural communities of Peru's highland region.

III. Program objective and description

- 3.1 This Technical Cooperation refers to the Rural Transport Program (RTP) that belongs to the third phase of the Rural Roads Program (RRP). The main objective of this TC is to capitalize the benefits of extremely poor rural communities (bottom of the Pyramid) placed along the rehabilitated and maintained roads considered in the RRP, specifically in terms of productive-economical activities, technical assistance and access to markets. As the RRP main objective is the improvement of infrastructure, TC funds will complement those funds dedicated to LDW in the RTP loan, focusing in the poorest departments.
- 3.2 Taking into consideration that real poverty relief results from the generation of economic activities as well as with the strengthening of community organizations, LDW appears as an innovative attempt to enhance the development of rural poor inhabitants. The process followed by LDW can be divided in three steps to better understand it.
- 3.3 In the first phase, LDW is in charge of organizing workshops convoking local authorities and local inhabitants to jointly identify both social infrastructure investments and productive activities, and define a Local Development Plan (each Action Plan includes FORD Analysis of the activities, Logical Framework, Action Plan and a list of productive and social infrastructure projects) agreed and prioritized by the whole community and validated by its elected authorities. During this phase, LDW supports the community to formulate two social infrastructure projects and two productive projects from the Action Plan at pre-feasibility level (a project at pre-feasibility level includes a business plan, logical framework, and environmental assessment).
- 3.4 During the second phase, LDW and the local authorities seek financing for the identified projects. In the case of social infrastructure investments, LDW supports the local authorities to prepare the project profile for the National System of Public Investment (SNIP). Regarding productive projects, LDW prepares regional fairs inviting donors with potential interest in financing them. LDW projects have received support from institutions like Caritas, Natherman, Cooperativa de Ahorro y Crédito San Martín de Porres, Gobierno Vasco, CEDAM España, FODAM, CARE, etc.
- 3.5 During the third phase, LDW has a role of monitoring and supervising the financed projects giving technical support and management advice looking forward to empower local communities to manage their business by themselves.
- 3.6 LDW has been working in 81 districts within eight departments already under intervention of the Rural Road Program (San Martín, Junín, Huánuco, Amazonas, Apurímac, Ancash, Cerro de Pasco and Huancavelica). The main results achieved so far are 81 community-based Diagnostics and Local Development Plans validated and prioritized, 550 project profiles, 167 projects at pre feasibility level and an overall fund mobilization of approximately US\$10 million, of which 101 public projects (US\$7.1 million) and 48 privately held productive projects (US\$2.8 million and

12,000 beneficiary families). Table 2 shows some examples of public and productive projects.

Table 2: Examples of type of projects

	Example 1	Example 2	Example 3
Social Public Investment	Health Unit Equipment Location: District of Churubamba, Huánuco Amount: US \$5,000	Electrification of Caynarachi Community, District of Lamas, San Martín Amount: US \$300,000	Construction of School Rooms and its equipment Location: District of Cactachi, San Martín Amount: US \$10,000
Local Productive Projects (Community based)	Production of Yacón (a Peruvian vegetable root) Location: District of Orocotuna, Junín Amount: US \$11,000 Beneficiaries: 35 families	Production of organic, aromatic and medicine plants Location: District of Churubamba, Huanuco Amount: US \$49,000 Beneficiaries: 60 families	Production and commercialization of Tilapia (local fish) Location: District of El Sauce, San Martín Amount: US \$80,000 Beneficiaries: 105 families

- 3.7 Looking forward to expand LDW achievements, during the third operation, the main goals are: (i) broaden alliances and reduction of transport costs; (ii) organizing local communities and promoting businesses; and (iii) improve accessibility of rural communities to commercial and financial markets. To achieve these goals the TC defined three components described below.
- 3.8 **Component 1. Broaden alliances and reduction of transaction costs.** For supportive programs like LDW, alliances are key elements in order to gain synergies among different participant institutions (like NGOs, universities, donors, financial institutions) and be able to respond to the specialized needs of the rural communities. Additionally, the Program should develop a communication strategy (web page, radio, advertising, newspapers) to gather and show, in the most appropriate and accessible way, useful information for the local community. In that sense, LDW will: i) identify potential alliances and design a powerful network and strategy with them; and ii) design the communication strategy that LDW will follow in order to broaden opportunities for the rural population. Although LDW will be territorially based, this component will be, in a sense, a “public good”, available to anyone that shows the same characteristics as the beneficiaries communities.
- 3.9 **Component 2. Organizing local communities and promoting businesses.** LDW works jointly with the local community in identifying priority investments through the definition of Development Plans at Province level, but identifying activities at local levels; and afterwards supports each community to develop at least two pre-feasibility profiles of productive community-based projects. As a result from lessons learned in previous phases, LDW considers expanding the realization of workshops to promote and guide private sector productive activities. LDW targets to work with 15 provinces (150 communities approximately) in at least 12 poorest departments: Ancash, Ayacucho, Cajamarca, Cuzco, Junín, Huancavelica, Huanuco, Madre de Dios, Puno and San Martín.
- 3.10 **Component 3. Improve accessibility of rural communities to commercial and financial markets.** LDW will give rural inhabitants tools, like technical assistance, management training, and information about financial markets, to make them capable

to develop by themselves their productive activities. In that sense, the TC will consider financing courses in management and technical assistance, including socio and environmental aspects related to rural business sustainability that will be taught by universities, specialized professionals from the community, NGOs, etc. Additionally LDW considers the realization of workshops to introduce local inhabitants to credit culture and make them understand the credit system. The TC will focus in reducing financial transaction costs through a better comprehension of rural financial markets and community organization.

- 3.11 **Component 4. Follow-up and monitoring.** During previous phases, the GOP has been interested in monitoring and following-up Program activities, while evaluating its results and impacts. Continuing with that approach, this TC will support those activities, in order to effectively measure Program results. These will be evaluated through a Logical Framework that will be developed in the Plan of Operations. Additionally, the GOP is interested in compiling lessons learned in order to disseminate the know-how for future operations. The Bank will continue with the supervision and evaluation process applied in the second RRP with quarterly reports and joint reviews every six months between IDB, World Bank and GOP.

IV. Cost and financing

- 4.1 It is expected that the RTP will have a financing of US\$180 millions. The Inter-American Development Bank and the World Bank will provide each, US\$60 millions, while the GOP will contribute with US\$60 millions as counterpart funds. The funds requested in this TC are complementary to those allocated in the Rural Transport Program for LDW, and will allow it to expand considerably its activities, particularly in those areas where extreme poverty is prevalent.
- 4.2 The requested funds will be disbursed during the 48 months of duration of the Rural Transport Program.

Table Cost – Local Development Window

Type of Expense	Number products	Cost per unit	JPO Total	Local Counterpart[1]	TOTAL
<u>Component #1</u>			62,500	22,300	84,800
Alliances network	1	57,600	57,600		57,600
Communication Stragey	1	7,200	4,900	2,300	7,200
Implementation of communication strategy	1	20,000	-	20,000	20,000
<u>Component #2</u>			1,298,750	126,250	1,425,000
Development Plans (at Province Level)	15	15,000	181,250	43,750	225,000
Productive profiles at pre-feasibility level	420	2,500	1,012,500	37,500	1,050,000
Workshops to promote private activities	150	1,000	105,000	45,000	150,000
<u>Component #3</u>			126,250	121,250	247,500
Technical assistance	250	450	81,250	31,250	112,500
Management training	150	450	22,500	45,000	67,500
Financial training	150	450	22,500	45,000	67,500
<u>Component #4:</u>			50,000	-	50,000
Follow-up and monitoring	1	50,000	50,000		50,000
<u>Overhead[2]:</u>					
<u>Other Costs:</u>	1	22,700	-	22,700	22,700
<u>Equipment[3]</u>					
<u>General support [4]:</u>					
<u>Contingencies[5]</u>					
<u>Auditing and Evaluation</u>	1	50,000	-	50,000	50,000
TOTAL			1,537,500	342,500	1,880,000

V. Executing agency and execution structure

- 5.1 The executing agency will be the Transports and Communications Ministry through its unit Provias Rural (before *Programa de Caminos Rurales*), who has been executing the Rural Roads Program since its first stage. The mission of this unit is to efficiently develop joint actions with local governments to permanently maintain the operability of rural roads and to implement the institutional and financial instruments for an adequate management of such roads, looking forward to increase the income of the rural population, positively impacted by the roads. In that sense, LDW fits into its objectives.
- 5.2 Provias rural is conformed by a central office (located in Lima) and eleven deconcentrated offices called “*unidades zonales*”, one for each of the intervened zones (except for the case of Huánuco and Pasco that share the same unit). These *unidades zonales* are directed by a zonal chief and have a technical and a social division, the latter having as one of its main tasks that of supervising and providing support to LDW activities.
- 5.3 Provias Rural has been responsible for the loan administration, establishing standards and criteria for its execution, contracting services and works with third parties, transferring funds, providing technical assistance and supervising the municipalities

that have the capacity to plan and execute studies and works, as well as monitoring and supervising the LDW Program. During all this period, Provias Rural has demonstrated a sufficient institutional capacity to execute the Program, a proof of that being the awards given by the Bank, the World Bank and Civil Society in recognition of Provias Rural efficiency and achievements.

VI. Major issues

- 6.1 **Implementation process.** LDW seeks to expand its coverage into at least the twelve departments already intervened by the RRP, which means additional number of communities involved, a diversification of strategic partners like financial institutions and private donors, universities, etc, requiring a very well defined coordination scheme among them, and major executing responsibilities for Provias Rural.
- 6.2 To address this challenge, Provias Rural is strengthening the staff devoted to LDW ("*Gerencia de Promoción Social*"), identifying possible scenarios that could arise during LDW's execution, and finding applicable solutions. Secondly, the Bank will continue with the supervision and evaluation process applied in the second RRP: quarterly reports and joint reviews every six months between IDB, World Bank and GOP. Additionally, as the RTP is also going to be expanded to the national level, LDW will receive support from the social divisions of the *unidades zonales* (regional offices).
- 6.3 **Political risk.** The Rural Road Program have endured three different governments, mainly because the Program has demonstrated its positive impacts in providing infrastructure and reducing poverty in rural communities, which is a main target for any government. In that sense, the change of President in July 2006 should not affect the implementation of the Program and TC.

VII. Action Plan

- 7.1 This LEP is going to be attached to the RTP (PE-L1011). The Bank is preparing its third operation and is planning to approve it on June 2006. On August 26th, 2005 the project outline was approved. On March 23rd, 2006 the PCD of Rural Transport Program was presented to LC.

VIII. Social and Environmental Strategy

- 8.1 The third phase of LDW will not finance or give technical assistance to develop any activity that: (i) causes adverse impacts on the biophysical environment; (ii) affects natural protected areas; (iii) and promotes social exclusion of vulnerable groups including indigenous people and women. These eligibility criteria will be included in the Rural Transport Program's Manual of Operations.
- 8.2 The ex post evaluation of projects developed under the LDW's first and second phase shows that they are small sized in general and don't cause negative environmental impacts. Nevertheless, the pre-feasibility profiles of productive community-based projects will include criteria to ensure that they are environmentally sound, use sustainable and culturally appropriated techniques.