

Third Party Evaluator's Opinion on Peru Rural Highway Rehabilitation & Improvement Project (II)

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Relevance

Peru suffers of poverty and inequality. Almost 40% of population is under poverty and the 10% richest of the population gets 17 times the income of the 10% poorest. Even more, the contrasts between urban and rural areas are more significant. Because of this, the project objective of promoting improvement of the transverse roads that connect the interior and coastal areas is highly relevant. How to cut the disparities? Providing basic social services and infrastructure to the highlands is a starting point. This is why the transportation policy of highway building for linking the coastal and Andean areas became crucial. This project comes in line with, in part, not only the new policy of a vigorous public investment on roads, but also, the vision that it is possible to make a link between the rural poor and the urban market in Peru.

Efficiency

Unfortunately the efficiency is rated as low because the project period and the project cost both significantly exceeded the plan (project period: 268%; project cost: 124.5% approximately). The lack of efficiency had two sources. On the one hand, the government revised its policy of financial affairs just when the disbursement of funding was close to be done. On the other hand, the selection process of contractors and consultants became problematic because of inadequate government funding and objections raised by bidders. Moreover, variables out of control like CAF decision for additional funding, interruption of construction and managerial changes of the executing agency made more difficult to reach the time framed.

The increase of project costs are explained by the changes at the detailed planning stage, the work volume of the consulting service in association with the extension of the project period and the expansion of the scope of the engineering service

How should similar projects be implemented more efficiently? It is hard to predict the future; however two important lessons could be addressed. Firstly, an accurate analysis of geological structure, land quality and whether conditions should be taken into account for the project formulation processes. Secondly, government should increase its managerial capacity for getting additional financial resources before it initiated other borrowing schemes. It is important to remember that every single highway project is a problem by itself. However, it is important to have a benchmark about building roads in the Andean region. Extra costs for engineering consulting and geological problems should be predictable. Because of this, the appraisal project must be based on lessons from other similar experiences.

Effectiveness

To what extent were the project objectives achieved? The road improvement is thought to have awakened the latent demand, resulted in 50% shorter travel time and to have contributed to the increase in traffic volume of both segments in northern and southern Peru. The increase of exchange of good and services between the highlands and the coastal areas was significant.

The main reason of the high effectiveness is that the executing agency Proviás was clever enough to choose two key segments of important and strategic highways. On the one hand, the northern segment is important for two regions which lead the economic growth. Cajamarca, in the Andean area, is rich in minerals like gold and copper and the companies needed to transport their production to the nearest coast. Lambayeque in the northern area has a highly commercial city like Chiclayo and it attracted foreign investment in services sector. On the other hand, the southern segment is part of a major road public investment that links Lima-Ica with Apurímac-Cusco. The consumers of agriculture products and tourism from the urban coast can meet their

needs with the producers of the highlands of southern rural Peru.

Impact

There are no specific impact indicators that show how the project contributed to the economic growth of the targeted areas. However, the estimated number of beneficiaries is 3.2 million persons. The improvement of their quality of life meant new employment opportunities and an expansion of business scale due to an increase in visitors. Specific numbers in the Northern segment show an increase in freight transport volume, in addition to an increase in sales (approximately 60%) parallel with the improvement in transportation service, increase in number of passengers and reduction in vehicle maintenance costs (40%). Although the noise from increased traffic volume could be a problem, a major concern is the excessive speeding and irresponsible driving by large trucks carrying agricultural products.

The project was implemented as part of a right public policy to raise the competitiveness of the rural areas. The economic boom of the recent years is explained because there were similar types of projects all over Peru during the 1990s. The case of this project is very special. On the one hand, the rise of commodities brought profit to several mining companies in Cajamarca which at the same time demanded goods and services from all northern Peru. This regional growth explained the tangible and positive impacts on the local development. On the other hand, the approval of the mega-project INTEROCEÁNICA connected the southern segment several towns and cities. The revitalization of the local economy is explained in part to this project and in part to the other investments in education, health, energy and telecommunications facilities. The project came after this period of strengthening infrastructure. Nowadays the project helps to provide materials and professionals from the education and health sectors in a more frequent and faster way, where two decades before it was impossible to think about it.

Sustainability

There are no problems in the financial status or ability in the project executing agency in operations and maintenance at the current point in time. The best way of improving the sustainability is that the government should provide enough public resources for operation and maintenance. Taking into consideration the big push from the central government towards local areas, it is highly probable that the aspect of sustainability of this project is safe, even amidst the current economic crisis.