

# PROJECT CONCEPT PAPER

## BRAZIL

SEPTEMBER 20, 2004

### I. BASIC DATA

<b>Project name:</b>	Tourism Development Program for the South of Brazil – (PRODETUR/SUL).		
<b>Project number:</b>	BR-0318		
<b>Profile I:</b>	May 7, 2002		
<b>Project team:</b>	Division Chief: Asunción Aguilá. Team Leader: Arthur H. Darling (RE1/EN1); Maria Claudia Perazza (RE1/EN1); Teodoro Noel (RE1/EN1), Hugo de Oliveira (RE1/EN1), Carmen Altes (RE1/EN1); Bernadete Buchsbaum (LEG/OPR); and Eduardo Figueroa, (COF/CBR).		
<b>Borrower:</b>	Banco do Brasil		
<b>Executing agencies:</b>	Banco do Brasil and the Ministry of Tourism		
<b>Financing plan:</b>	IDB (OC):	US\$	150 million
	Local:	US\$	<u>100 million</u>
	Total:	US\$	250 million
<b>PTI/SEQ:</b>	No		
<b>Tentative dates:</b>	Analysis Mission	October 5, 2004	
	Loan Committee	November 18, 2004	
	Board of Directors	December 13, 2004	

### II. FRAME OF REFERENCE

#### A. The Tourism Sector

- 2.1 Through most of 1990's, the current account of Brazil's balance of payments, including the travel account, had a large and growing deficit. Since the readjustment of the exchange rate in 1999, the travel account has become positive due to the increase in the number of foreign tourists and the reduction in the number of trips abroad by Brazilian citizens. According to the latest data, in the first semester of 2004, the tourism expenditure increased 46% in relation to 2003, situating tourism as one of the main foreign exchange sources for Brazil. The Government of Brazil is making a substantial effort to increase international tourism to

generate foreign exchange and employment, and the IDB has supported these efforts in the northeast and the Amazon. Brazil has now asked for support in the South (Rio Grande do Sul, Paraná, Santa Catarina and Mato Grosso do Sul).

- 2.2 According to a survey carried out in 2001, the internal market in Brazil generates over 41 million tourists per year, which guarantees a critical mass of demand for the local tourism industry. The foreign market grew rapidly in the 1990s. In 2000, international tourism arrivals in Brazil reached a peak of 5.3 million, but these declined to 3.8 million in 2002 due to the effects of the terrorist attacks in the USA and the Argentine economic crisis. With the decline of tourism from bordering countries, the relative significance of the long haul market increased. Between 2001 and 2002, the share of arrivals from the USA grew from 14% to 20%. Europeans accounted for 36% of the arrivals in 2002 compared to 30% in 2001. In 2003, the number of international arrivals recovered, reaching 4.1 millions, and the tourism expenditure increased in proportion to US\$3.4 billion. A primary objective is to further increase the number and expenditure of the long haul tourists. This market is particularly important since it is less sensitive to exchange rate variations than the market of bordering countries. In the first semester of 2004, the number of international arrivals by air has grown by 18%.
- 2.3 In 1998, the four Southern states that are participating in the proposed Program accounted for 38% of all foreign tourists in Brazil. Eighty-seven per cent of these were from South American countries and principally from Argentina. The economic crisis of 2001 had a devastating impact on arrivals from Argentina, and the South's share of foreign tourists declined to 26% in 2002. Nevertheless, including domestic visitors, the Southern states receive more than 8 million national and international tourists per year, and tourism generates more than 250,000 jobs in direct employment -representing 17% of the total employment in the sector, and accounts for 4.5% to the GDP of the region.
- 2.4 The Southern states have a number of established tourism destinations. These include the first four areas selected for the Program: the coastline of Santa Catarina, the Serra Gaúcha (Rio Grande do Sul), Serra da Bodoquena (Mato Grosso do Sul) and Foz do Iguazu (Paraná). The main attractions are natural areas (crystalline waters, caves and landscapes in the Serra da Bodoquena, beaches in Santa Catarina, canyons in the Serra Gaúcha, and the Iguazu National Park and waterfalls) and the cultural heritage of the European immigration present in towns of Rio Grande do Sul and Santa Catarina. The second areas to be included are the Metropolitan Region of Curitiba (Paraná), the Serra Catarinense (Santa Catarina) and the Jesuit Missions (Rio Grande do Sul).
- 2.5 Two of the tourism centers in those areas are among the ten most visited in Brazil by international tourists: Foz do Iguazu (Paraná) is visited by 9% of the international tourists and Florianopolis, on the coastline of Santa Catarina, by 6.4%. The tourism industry is relatively well developed in quantitative terms in the four selected areas. For example, the number of hotel beds in Foz do Iguazu is 12,000 and in the smaller tourism center of Bonito, the main destination in the Serra da Bodoquena, the number of beds has increased ten-fold in a decade reaching 3000 in 2002. Most tourism services are provided by locally owned small and medium-size enterprises and service standards need improvement.

- 2.6 The competitiveness and sustainability of tourism in the four Southern states has been affected by problems of access and sanitation. As tourists arrive by road, the deficiencies in the roads limit access to the different tourism centers and attractions. Limitations in wastewater coverage and treatment have impact on the environment and on the quality of the tourism resources, especially where beaches and other water based assets are the main attraction. Unplanned urban growth due to poor land use planning and enforcement of regulations by municipalities also impact the environment and the quality of the tourism experience.
- 2.7 Because the traditional markets are highly seasonal, the tourism industry suffers from peaks of demand and periods of inactivity. The sector is not making efficient use of the installed capacity and employment opportunities are also influenced by the seasonal pattern. This occurs partly because the tourism sector has relied on its “natural” markets. New opportunities have not been explored and a coordinated and effective marketing action is lacking.
- 2.8 In order to improve their competitiveness, the states need to invest in infrastructure, improve the capacity of the public sector to manage the tourism development, diversify the product mix and reduce the concentration of tourism flows, improve the quality of the tourism services, and carry out an effective promotion targeting new markets especially long haul markets.

## **B. Strategy of Brazil for the Sector**

- 2.9 The Government of Brazil includes tourism in its development strategy. The role of tourism development is to create employment, generate foreign exchange, reduce regional inequalities, and better distribute income. The Government believes that tourism is particularly effective in generating employment because the investment per job is less and the period necessary to train workers is shorter. The Government follows a strategy of decentralized tourism development. The Ministry of Tourism sets policy and coordinates actions with the National Tourism Council, other ministries, state forums, municipalities, and tourism destinations. The Ministry is relatively new but has become increasingly active and technically staffed. It has had a growing role in the PRODETUR/NE II Program and a leadership role in the coordination and development of the PRODETUR/SUL Program.
- 2.10 The Ministry’s National Tourism Plan’s goals for 2007 are to (1) generate 1.2 million new jobs; (2) increase the number of foreign tourists to 9 million; (3) increase net foreign exchange earnings to US\$ 8 billion; (4) increase the number of domestic air passengers to 65 million; and (5) develop at least three quality tourist products in every state in the Federation and the Federal District.
- 2.11 The Ministry has six strategic lines of action to achieve these objectives: (1) coordination of national and sub-national entities, (2) attraction of investments in tourism; (3) improvement of access and support infrastructure for regional destinations; (4) diversification of tourism products and targeting of specific market segments; (5) improvement of the quality of tourism services; and (6) promotion and support of marketing efforts. The National Tourism Plan cites the IDB as a source of financing for the improvement of access and support infrastructure. The Bank is supporting this strategy with credit operations in the Northeast and now in the South.

### **C. Strategy of the Bank in the Sector**

- 2.12 The Bank's country strategy for Brazil establishes four priorities for strategic action: (1) productivity of small and medium enterprise and infrastructure with emphasis on the use of models of public-private cooperation in new investment, (2) poverty, equity, and human capital formation focused on income distribution, (3) living conditions and efficiency in cities with improvements in environmental quality, (4) modernization of the state with emphasis on institutional strengthening of sub-national governments. The Country Paper's tourism strategy is to focus on projects that increase international demand with particular emphasis on (1) eco-tourism, adventure tourism, and cultural tourism, (2) local management of tourism, (3) training existing entrepreneurs, workers and new entrants in the tourism sector and (4) the preservation of natural and cultural heritage. The Program in the South emphasizes marketing to attract international tourists, strengthens eco- adventure and cultural tourism products, provides assistance to municipalities to improve local management, provides training for both entrepreneurs and workers, finances preservation of natural and cultural heritage, which are the primary attractions.
- 2.13 The proposed Program will also contribute to the other components of the Bank's country strategy. It will support efforts to increase the productivity of small and medium enterprises in tourism primarily by reducing seasonality and through training. It will finance infrastructure and promote private concessions recognizing private investment as counterpart. It will reduce social inequities and poverty by generating employment and increasing incomes. It will improve urban living conditions and environmental quality by financing sanitation, parks, and open space, and it will increase the capacity of municipal governments to regulate land uses and manage public services that benefit both the tourist and host populations.

### **D. Lessons Learned**

- 2.14 The Bank has learned a number of lessons from its participation in tourism programs, particularly those in Brazil. First, careful planning and sequencing of individual investments is needed. Without such planning and sequencing, some projects may attract large numbers of tourists before infrastructure is in place to manage their negative social and environmental impacts and before measures are in place to manage the social impacts associated with immigration. This lesson can be applied by ensuring that tourism investments are based on a tourism development plan.
- 2.15 Second, tourism programs require full involvement of stakeholders. Joint participation by state, municipal, and private interests, and civil society in planning makes it more likely that tourism will benefit the permanent population and improve the environmental sustainability of investments. Participation can be achieved by establishing tourism councils to discuss problems, solutions and plans to implement them.
- 2.16 Third, tourism programs must balance investment in infrastructure with institutional strengthening of municipalities to manage tourism flows and capture benefits. If this is not done, unmanaged flows of tourists and migrant workers seeking employment can damage areas both environmentally and aesthetically reducing their attraction. Balance can be achieved by

including actions to strengthen municipal planning capacity and resources to manage tourism flows and operate and maintain municipal investments.

- 2.17 Fourth, tourism development programs need an execution scheme that responds to the cross-sectoral nature of tourism development. The programs comprise a series of works that have to be technically sound and coordinated in implementation. Projects need to be planned, evaluated and executed by experts in tourism planning, socio-environmental and institutional analysis, economics and finance. This lesson can be applied by ensuring an execution team that is multi-disciplinary working in close coordination with the state and municipal agencies responsible for specific works and actions.

### **E. Conceptualization**

- 2.18 The PRODETUR/SUL is a Program to help generate foreign exchange, employment and income by investing in tourism. It is a credit operation that will make loans available to the States of: Mato Grosso do Sul, Paraná, Rio Grande do Sul and Santa Catarina to undertake tourism projects for specific geographic areas within each state.
- 2.19 The Bank's experience in Brazil and other countries provides lessons on the best way to achieve this objective without causing negative environmental and social impacts. To apply these lessons the Bank and the states have agreed on a series of steps. First, for each selected area, the states will hold a series of workshops with the private sector, civil society and municipal governments to talk about the problems, opportunities and alternative strategies in the tourism sector. The workshops elicit commitment on the part of participants and make sure that issues and conflicts are identified early so that solutions benefit the local population and are sustainable. Based on the diagnosis and objectives, each state prepares, for each selected area, a Tourism Development Plan that balances investments in infrastructure with institutional strengthening necessary to monitor and manage social and environmental impacts and that establishes the sequence and priority of investments and institutional strengthening to ensure that foreseen impacts are properly managed. Each state validates its Tourism Development Plans with Regional Tourism Councils that are comprised of the key stakeholders elected during the earlier workshops to follow tourism development in the areas. To ensure that the Program is implemented effectively, the states are establishing State Coordinating Units with a multi-disciplinary staff to orient and analyze specific project proposals and to help state and municipal agencies that implement them.

## **III. THE PROGRAM**

### **A. Objectives**

- 3.1 The Goals of PRODETUR/SUL are to increase income and employment and to contribute positively to the travel account of the balance of payments. The Purpose of the Program is to increase tourists' expenditure in the South. The Logical Framework in Annex I shows the baseline indicators for employment and wages in tourism, and number of visitors, average stay and average daily expenditure for each priority area in the Program.

## B. Description

- 3.2 The Program is structured as a credit program administered by the Banco do Brasil. The Banco do Brasil will be the borrower and intermediary to channel resources to four states to undertake tourism projects that are identified in Tourism Development Plans for specific geographic areas. The States of Mato Grosso do Sul, Paraná, Rio Grande do Sul and Santa Catarina will be the sub-borrowers. Program funds will be committed on a *first come-first serve basis*. The operation is governed by operating regulations and an implementation manual.
- 3.3 The Program has five eligible categories of investment (components), each of which contribute to the objectives of the Program as described below. The Program will also finance a monitoring system implemented at the state and municipal level and external auditing.

## C. Dimensioning

- 3.4 The Brazilian Government has requested a loan of US\$ 200 million. However, the preliminary analysis of the financial capacity of the states to take new debt suggests that the loan should be about US\$ 150 million. Three states have the financial capacity to take on new debt at present (see ¶4.11-4.14), although the Program is structured to include the fourth as soon as it complies with the Brazilian legislation to contract new debt and improves its fiscal results.
- 3.5 In order to dimension the Program, the Bank asked Mato Grosso do Sul, Paraná, Rio Grande do Sul and Santa Catarina to select one important geographic area for tourism development, hold workshops to discuss problems and objectives, and prepare a plan and a sample of projects in the plan. The four states have prepared these plans with a total cost of US\$ 260 million, which is an adequate amount for a credit operation of the size proposed by the Brazilian Government. The Bank also asked each state to prepare, based on the draft Operating Regulations, a sample representative of the works, institutional strengthening proposals and studies that are proposed in their Tourism Development Plans. The sample ([Annex III](#)) includes 13 works of infrastructure and 34 studies that define the needs and investments in training, restoration of historic buildings, infrastructure and institutional strengthening at the state and municipal level. The Bank has reviewed the drafts of the sample of projects and studies. Some of the projects did not have complete economic analyses or environmental licenses which the Project Team will expect to see during the analysis mission. The sample ready for execution in the first year is US\$ 49 million, which represents 20% of a US\$250 million Program. The studies in the sample will generate investments to be initiated in the second year.

## D. Components

- 3.6 The five categories of investment of the Program are explained below. The amount assigned to each was estimated on the basis of the percentage of costs corresponding to each component in the four Tourism Development Plans.
- 3.7 **Component 1: Strengthening state and municipal capacity to manage and benefit from tourism (US\$13 million).** This component ensures that state and local governments have the capacity to plan and control tourism development and to collect and manage taxes and fees generated. The costs cover both the preparation of studies and the subsequent implementation of the recommendations. The component includes: (i) managerial information systems and training

to strengthen capacity to plan, monitor and evaluate tourist activity; (ii) land use planning, zoning and enforcement; (iii) municipal administrative and fiscal management programs; and (iv) awareness campaigns.

- 3.8 **Component 2: Improvements in publicly owned tourist attractions and their management (US\$ 21 million).** This component finances actions that will attract more tourists and encourage them to stay longer. It includes the feasibility studies, final designs and the works recommended for: (i) development and conservation of state parks, rivers, beaches, caverns and other natural assets suitable for eco-tourism and adventure tourism; (ii) restoration, interpretation and conservation of forts, churches, museums and other cultural assets for cultural tourism; and (iii) urban landscaping, lighting, sidewalks and other improvements in urban areas that receive tourists.
- 3.9 **Component 3: Infrastructure to permit access, provide public services and manage environmental impacts (US\$ 172 million).** This component improves access, provides infrastructure services and ensures sustainability of tourism. Infrastructure absorbs the largest percentage of the Program's budget. The component includes feasibility studies, final designs, and physical works for: (i) highways and access roads; (ii) airports; (iii) water (development of source, transmission, treatment, and distribution); (iv) sewerage (collection networks, collectors, treatment plants); and (v) sanitary landfills.
- 3.10 **Component 4: Promotion of priority areas and provision of information in destination (US\$ 15 million).** This component aims to the increase of number of tourists and increase average stay. It focuses on those who spend more. It includes studies and resultant investments for: (i) marketing programs; (ii) visitor information centers; and (iii) sign posting.
- 3.11 **Component 5: Support to the private sector to provide tourism and infrastructure services (US\$ 5 million).** This component encourages improvement in the quality of tourist services through training and private investment in tourism facilities and infrastructure needed to support tourism. It includes: (i) identification of training needs, preparation of training plans and delivery of courses; (ii) feasibility studies to attract strategic private investments; and (iii) feasibility and other studies to support private sector involvement in concessions for infrastructure and other tourism related facilities.

## **E. Cost and Financing**

- 3.12 The following table presents the distribution of costs by source of financing and category of investment. The Bank will finance 60% of the cost, the states 24% and Federal Government 16%. The loan will have: (i) a disbursement period of 5 years; (ii) a grace period of 5 years; and (iii) an amortization period of 25 years.

**Projects Costs**  
(*millions of US\$*)

Category	BID	Local	Total	%
<b>1. Administration, Supervision and Regional Studies</b>		7.0	7.0	2.8%
<b>2. Direct Costs</b>	149.7	76.0	225.7	90.2%
2.1 Strengthening state and municipal capacity	8.0	5.0	13.0	5.2%
2.2 Improvements in attractions and management	14.0	7.0	21.0	8.4%
2.3 Infrastructure	114.7	57.0	171.7	68.6%
2.4 Promotion and information in destination	10.0	5.0	15.0	6.0%
2.5 Support to the private sector	3.0	2.0	5.0	2.0%
<b>3. Concurrent Costs</b>	0.3	0.6	0.9	0.4%
3.1 Monitoring System		0.5	0.5	0.2%
3.2 External Audit	0.3	0.1	0.4	0.2%
<b>4. Financial Costs</b>		16.4	16.4	6.6%
4.1 Interests		15.4	15.4	6.2%
4.2 Credit Commission		1.0	1.0	0.4%
4.3 FIV				
<b>Total</b>	<b>150.0</b>	<b>100.0</b>	<b>250.0</b>	<b>100.0%</b>
	60.0%	40.0%	100.0%	

#### IV. EXECUTION OF THE PROGRAM

##### A. THE BORROWER, GUARANTOR AND EXECUTING AGENCY

4.1 The Banco do Brasil will be the borrower and the executing agency of the Program. The Federative Republic of Brazil will be the Guarantor of the Loan. The Banco do Brasil is a sound financial institution with total assets of R\$230.1 billion (approximately US\$79.7 billion) as of December 2003. In 2003, it had net income of R\$2.4 billion. Its total loan portfolio represents 67% of deposits, with arrears of only 5%. The Banco do Brasil has been maintaining a strong deposit base to total assets of approximately 49%. It is in compliance with all regulations of the Central Bank of Brazil and with the Basel recommendations on technical ratios, loan portfolios and capitalization. Its coefficient of capital adequacy was 13.7% on December 2003.

##### B. Execution and Administration of the Program

4.2 The Banco do Brasil will make sub-loans in local currency to the states, passing on the IDB loan's financial conditions, the exchange risk, plus a margin of 1% to cover administrative, supervision and monitoring costs. The states of Paraná, Santa Catarina, Rio Grande do Sul and Mato Grosso do Sul will be sub-borrowers. As the executor of the Program, the Banco do Brasil will be responsible for the overall coordination, administration, orientation, accounting, monitoring and evaluation of execution. Its tasks include the verification of sub-borrower's

eligibility to access the Program's resources and the preparation of consolidated annual progress reports on execution and maintenance; monitoring contractual clauses; and management of the Program's monitoring system.

- 4.3 The Ministry of Tourism will support the Banco do Brasil with the (i) technical review of the Tourism Development Plans and large projects; (ii) management of Federal counterpart; (iii) monitoring the conditions established in the Operating Regulations; (iv) ensuring consistency of the states' environmental audits; and (v) evaluation of the Program. The Ministry of Tourism has been managing the technical review and quality control of Tourism Development Plans and feasibility studies during preparation of the Program. To do this, it has a director and three managers (technical, financial, and regional) and a technical staff. The Ministry contracts technical specialists for specific projects. To date the quality control process has been sufficient with respect to technical aspects, but needs strengthening in economic and environmental aspects to ensure effective ex-ante review of large projects. In addition, the Ministry will also contract a tourism expert with international experience to bring an international perspective and help the tourism experts in each state to understand the requirements of international tourists and to ensure that planning, project design, training and marketing meet those requirements.
- 4.4 Each state has a State Coordinating Unit, established by law, under the State Secretariat of Tourism. The State Coordinating Units will be the sub-executors of the Program and will submit all requests for projects in their Tourism Development Plans to the Banco do Brasil. They will prepare the Tourism Development Plans for new areas; provide guidance to state and municipal agencies on the application of criteria established in the Operating Regulations; review the technical, economic, environmental and financial analysis and the Logical Frameworks of all the projects included in the state's Tourism Development Plans; manage all project documentation on the preparation, evaluation, execution, finance and administration; implement a data base for supervising the physical and financial execution of the projects, monitor and evaluate the achievement of the Program's development indicators at the state level, and provide annual progress reports on execution, maintain adequate financial and accounting records of the funds assigned from the Program as well as adequate internal control procedures; and render accounts. The Banco do Brasil and the Ministry of Tourism are preparing a Program Implementation Manual that establish all procedures to be used during execution.
- 4.5 The State Coordinating Units are in the process of contracting the technical staff. The units will need a basic staff including a general coordinator, a technical coordinator, an infrastructure specialist, an environmental specialist, a tourism specialist, an accountant, procurement specialist, and an attorney. The basic staff will be complemented with specialists in relevant fields. The state's environmental agency will carry out periodic environmental audits of the Program's selected actions and will report simultaneously to the Banco do Brasil, the Ministry of Tourism, the State Coordinating Unit and the IDB.
- 4.6 The state or municipal agencies (declared eligible by the State Coordinating Units according to the rules established in the Program's Implementation Manual) will contract and supervise works and procurement of goods and services according to the responsibility assigned in local legislation. They will participate in the preparation of the Tourism Development Plans and

prepare the terms of reference, feasibility studies and final designs of the proposed projects, studies, and training programs identified in those plans. They will carry out bidding processes, prepare contracts; receive and approve consulting reports and completed works. They will forward technical and environmental supervision reports for works to the State Coordinating Units, and prepare invoices, certificates of completion of works and services and submit the corresponding documentation to the State Coordinating Units.

- 4.7 For each selected area, a Regional Tourism Council will be established, representing state and municipal governments, private tourism interests and local civil society. The Councils for the first four areas have already been established. The procedures for convocation and election of permanent members is in process.

### **C. Operating Regulations and conditions of eligibility**

- 4.8 The Program will be governed by Operating Regulations. The draft Operating Regulations are available and include: (i) conditions for state eligibility; (ii) conditions for eligibility of projects and other actions; (iii) limits of autonomy for the State Coordinating Units and (iv) requirements for environmental monitoring and control. States will be eligible for loans from the Banco do Brasil if they: (i) are in compliance with the financial requirements specified in Brazilian Law; (ii) have Tourism Development Plans that have been approved by the Ministry of Tourism and ratified by their Regional Tourism Councils; and (iii) if the State Coordinating Units have the basic staff to analyze, supervise and financially manage the Program. Projects, studies, plans and training programs will be eligible if they: (i) are included in an approved Tourism Development Plan; (ii) have individual logical frameworks with baseline indicators specified that demonstrate their relation to the Program's development objectives and (iii) have demonstrated technical, economic, financial and socio-environmental feasibility according to guidelines specified in the Operating Regulations.
- 4.9 For projects that involve civil works, the Operating Regulations require community participation in project development and the presentation of environmental licenses for the installation of all works. For more complex civil works defined in the Operating Regulations, effective environmental supervision will be required as part of the general technical supervision of construction. The environmental agency of each state will do the environmental auditing.
- 4.10 The State Coordinating Units will evaluate and approve the technical, economic, financial and socio-environmental feasibility and the bidding documents and procedures of all projects that cost less than US\$ 5 million and all proposals for studies, plans, training programs and goods that cost less than US\$ 350,000. The Ministry of Tourism will review all projects and procurement above US\$ 5 million and all proposals for studies, plans, training programs and purchase of goods that cost more than US\$ 350,000. The Ministry of Tourism will also verify that the State Coordinating Units are properly interpreting and enforcing the Operating Regulations using a 10% sample of works, studies and acquisitions approved by the State Coordinating Units.

## D. Financial Situation of the States

4.11 The analysis of the financial situation of the sub-borrowing states (Mato Grosso do Sul, Paraná, Rio Grande do Sul and Santa Catarina,) provides information on their potential capacity to borrow and provide counterpart. The analysis examines compliance with the Fiscal Adjustment Program signed by each state (Federal Law 9496/97) and with the indicators established by the Law of Fiscal Responsibility (Federal Law 101/00). These indicators will be analyzed by the Treasury at the time sub-loans are approved. The following table presents the targets and the levels achieved. [Annex IV](#) presents a detailed analysis of each state's budget execution for 1999-2003 and budget projections for 2004-2013.

Indicators	Santa Catarina	Mato Grosso do Sul	Rio Grande do Sul	Paraná
<b>A. Law of Fiscal Responsibility</b>				
Personnel Expenses / Net Current Income (%)				
• Result 2003	53.9	43.7	59.3	57.0
• Limit	<60.0	<60.0	<60.0	<60.0
Contracted Debt / Net Current Income (%)				
• Result 2003	2.2	2.3	2.9	1.9
• Limit	<16.0	<16.0	<16.0	<16.0
Debt Service / Net Current Income (%)				
• Result 2003	12.3	11.6	14.7	14.2
• Limit	<11.5	<11.5	<11.5	<11.5
Net Consolidated Debt Allowed / Net Current Income (times)				
• Result 2003	1.65	2.66	2.62	1.44
• Limit	<2.00	<2.00	<2.00	<2.00
<b>B. Program of Fiscal Adjustment</b>				
Financial Expenses / Net Real Income (%)				
• Result 2002	2.5	3.48	3.08*	1.55
• Target	<2.36	<3.82	<3.34	<1.67
Primary Result (millions of R\$)				
• Result 2002	(798)	174	207*	301
• Target	>546	>173	>(204)	>156
Personnel Expenses / Net Current Income (%)				
• Result 2002	58.73	56.52	67.20*	61.52
• Target	<59.15	<58.98	<67.68	<66.90
State – Generated Income (millions of R\$)				
• Result 2002	4.238	1.45	10.196*	5.716
• Target	>3.606	>1.42	>9.249	>5.292
Investment Expenses / Net Real Income (%)				
• Result	9.94	5.79	8.39*	10.73
• Upper limit	<10.37	<5.89	<7.91	<9.39

\* Results 2003

4.12 Section A of the table above shows financial indicators calculated from 2003 audited fiscal information and compares the results with limits established by the Law of Fiscal Responsibility. Although all four states meet the law's limits on ratios of personnel expenses and contracted debt to net current income, their ratios of debt service to net current income is above the legal limit in all cases. In addition, the States of Mato Grosso do Sul and Rio Grande do Sul have a ratio of net consolidated debt to net current income ratios above the legal limit. In spite of their debt situation, Mato Grosso do Sul, Paraná and Santa Catarina comply with the requirements of eligibility for credit, since Federal Senate Resolution 40/01 establishes a waiver of the debt limit for credit operations that are included in the Fiscal Adjustment

Program (PAF). Rio Grande do Sul did not make provisions for the Program in its PAF 2001-2003, and therefore does not qualify for the waiver.

- 4.13 Law 9496/97 allows the Federal Government to take over, consolidate and refinance state debts, if the state signs a financial agreement with the Ministry of Finance agreeing to comply with financial targets each year. Section B of the table presents the agreed targets and shows that the states complied with these targets in most cases in 2002. Santa Catarina did not comply in 2002 with the targets for Primary Result and the ratio of Financial Expenses to Net Real Income because it had to provide additional capital to the Banco do Estado, an extraordinary item. The estimates for 2003 indicate that Santa Catarina will have a positive primary result. The States of Paraná and Rio Grande do Sul exceeded the limit of the ratio of Investment Expenses to Net Real Income in 2002 and 2003 respectively.
- 4.14 The financial projections for current and capital income and expenses cover the ten-year period 2004-2013. The projections are based on current information provided by the states. This information is subject to change over time. The financial projection is indicative of the outcomes expected given the current information and the assumptions. The projections here assume that the state will neither take on more debt nor make investments that are not foreseen in their Fiscal Adjustment Plans, and that they will not sell assets. The analyses show that the four states have a total capacity to borrow the amount provided for in their respective Fiscal Adjustment Programs. Based on these projections, the states have a combined capacity to take US\$ 150 million of debt and provide US\$ 100 million of counterpart for this Program.

#### **E. Monitoring and Evaluation**

- 4.15 The monitoring and evaluation system will be based on the indicators of the Program's Logical Framework (see Annex I). As part of preparation, each state prepares an individual Logical Framework for each area that it wishes to finance in the Program. Each state and its participating municipalities will collect information on the indicators of the Logical Frameworks. The Banco do Brasil will consolidate this information in a permanent monitoring and supervision system. The monitoring and evaluation system includes the indicators that are key to success, such as number of visitors, average stay, and average expenditure. The performance indicators and the instruments to collect them are being developed and are expected to be ready for approval prior to Board presentation, and the Banco do Brasil will have the core monitoring and evaluation system designed prior to first disbursement. There will be a mid-term review of execution. The review will cover the pace of execution, the effectiveness of the monitoring and the evaluation system, the quality of the technical analysis of the states for projects and studies that are not reviewed by the Ministry of Tourism and the adequacy of environmental procedures and monitoring. It will also review available evidence on the progress of the Program in increasing tourism flows, employment and foreign exchange.

## V. DEVELOPMENT IMPACT

### A. BENEFITS AND BENEFICIARIES

- 5.1 The economic benefits of tourism are of four types: (1) net foreign exchange earnings, (2) employment benefits, (3) redistribution benefits, (4) benefits to tourists. The Program will directly benefit local enterprises that work in tourism by improving the capacity of the destinations to satisfy visitors and to attract new markets, and by strengthening the capacities to manage and market their services. It will also benefit the employees of the tourism sector and new entrants, by improving their professional capacities and by providing work opportunities. The individual investments in the Program, mainly those in infrastructure and management, also benefit many people who are not necessarily related to the tourist industry. While not the principle focus of the project, these benefits are important to the justification of the individual projects and will be considered in the economic analysis.

### B. Expected Results

- 5.2 As all areas of the PRODETUR/SUL Program have not yet been defined, it is not possible to estimate the final results. However, the Logical Framework provides the targets for the areas covered by the sample. The PRODETUR/SUL Program will contribute to the macro-objectives of the Government's National Tourism Plan (¶2.10). The Goals of the Program are to increase employment, income and foreign exchange earnings. Data on employment and income in tourist activities are available at the municipal level and are presented in the Logical Framework. The contribution to Brazil's foreign exchange earnings will be seen in the travel account of the balance of payments, but the South's contribution cannot be broken out. The Purpose (direct result) of the Program will be the increase in expenditure of visitors to the project areas. Of particular importance from the national point of view is the increase in foreign visitor expenditure. This increase will be measured by the factors that compose it: number of visitors, average stay, and expenditure per person. The same factors will be measured for national visitors. Visitor satisfaction in each area will be monitored during and after execution. The baseline indicators appear in the Logical Framework.

### C. PTI/SEQ Classification

- 5.3 This operation does not qualify as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (Document AB-1704). The project does not specify explicit performance indicators to measure poverty reduction and social equity enhancement.

### D. Environmental and Social Impacts

- 5.4 Tourism projects can have positive social and environmental impacts that include (i) the generation of jobs and income and (ii) the protection and restoration of natural and cultural heritage that are the fundamental attractions of the South. Tourism can also have negative environmental and social impacts. The lessons learned from financing other operations in

Brazil have been incorporated (§2.14-2.17 and §2.19). The Program stresses planning and sequencing of investments to achieve strategic goals and to minimize negative environmental and social impacts associated with tourism growth and immigration inflows and to achieve an integrated and balanced set of actions and investments.

- 5.5 The problems most closely related to tourism that have been identified in some areas are those related to inappropriate land use (§2.6). Development and implementation of land use plans and strengthening the institutions that enforce them are foci of the present Program. Other problems such as contamination of beaches or ground water are caused by population presence, to which tourism contributes.
- 5.6 The infrastructure built for tourism projects has the usual impacts associated with its construction: removal of vegetation, localized erosion, water pollution, dust, noise, and traffic congestion. These impacts can be managed by known and standard measures that will be identified in the specific environmental impact studies required for each project, included in the bidding documents and enforced during execution, through the states' regional tourism councils, public consultations and environmental licensing concerning specific projects.
- 5.7 As part of the environmental and social strategy for the Program, the Ministry of Tourism, in coordination with the participating states, has undertaken a Programmatic Environmental Assessment that evaluates the Program's social and environmental feasibility. It analyzes the tourism strategies and development plans formulated by each state, identifies potential impacts of the group of projects and activities to be implemented, anticipates possible cumulative and synergistic impacts and benefits, and recommends measures to minimize negative impacts. Based on the States' Programmatic Environmental Assessments and its own analysis, the Project Team will prepare an Environmental and Social Management Report, which will integrate the analyses, assess potential strategic impacts and develop the Environmental and Social Management Plan for the Program.
- 5.8 The Environmental and Social Management Plan being designed considers one of the lessons learned from previous Bank operations that careful and participatory planning is needed in tourism development. The management of potential environmental and social impacts of the Program begins with a Tourism Development Plan for the selected area. These plans are developed on the basis of consultations with the stakeholders of the area, and the final plans are submitted for validation by the Regional Tourism Councils. The actions that are given priority for execution are submitted to the review processes required by law: environmental analysis or environmental impact assessment as required for environmental licensing (Resolução CONAMA 237/97 and states' legislation), and must comply with environmental and social requirements and specifications defined in the Operating Regulations. The costs of the measures identified for mitigation or control are included in the project budget and written into the bidding specifications. An Environmental and Social Management System will be developed to establish the procedures and safeguards to ensure environmental and social quality. The system will include control instruments, continuous monitoring and supervision and periodic audit and oversight, with clear responsibilities for the State Coordinating Units, the state environmental authorities, and the implementing technical units.

## **VI. ISSUES**

### **A. Private Counterpart**

- 6.1 The Government of Brazil has requested that the Bank accept private investment up to ten per cent of the Program en lieu of Government counterpart. Private counterpart was accepted in PRODETUR/NE II and is appropriate when the private sector finances activities usually undertaken by the public sector. The private-public model is endorsed by the Country Paper. The activities that are suggested for recognition as private counterpart are private investment in (i) water and sewerage systems, (ii) toll roads, (iii) airport terminals, (iv) docking facilities and terminals for cruise ships, and (v) convention centers. Proposed projects will be considered if they are included in the Tourism Development Plan, have demonstrated economic and financially sustainable on the basis of its cash flow, involve no operating subsidy, and include environmental responsibilities and sanctions for non-compliance in the bidding documents. In addition, the Program will consider private cost sharing for the implementation of marketing plans as part of the local counterpart as long as the activities are included in the marketing plan.

### **B. Limited Capacity for Project Analysis of the State Coordinating Units**

- 6.2 As indicated in ¶4.10, the State Coordinating Units will approve projects up to certain limits and supervise projects. The States are in the process of staffing these Units. Each State Coordinating Unit will have to demonstrate its capacity to analyze and supervise execution before it will be eligible for a sub-loan. If the States are slow to demonstrate this capacity or if the capacity is less than expected, it could take longer than five years to execute the Program. This risk is reduced by the training that the Ministry of Tourism and the Banco do Brasil are providing and by a Program Implementation Manual that guides the State Coordinating Units, step by step, through all the execution procedures.

## **VII. STATE OF PROGRAM PREPARATION**

- 7.1 The Ministry of Tourism has approved, and the Regional Tourism Councils have validated, four Tourism Development Plans. Draft Operating Regulations have been prepared and a sample based on them will be ready for analysis in October. The Ministry of Tourism has submitted the Programmatic Environmental Assessment for all states and the reports have been made available for public consultation. The Banco do Brasil and the Ministry of Tourism are currently preparing detailed implementation manuals to guide the State Coordinating Units during execution, and the states are presently revising the terms of reference, projects and individual Logical Frameworks of the sample in response to Bank comments.

**PROGRAMA DE DESENVOLVIMENTO TURÍSTICO NO SUL DO BRASIL**  
**PRODETUR/SUL (BR-0318)**  
**Anexo I. Marco Lógico**

OBJETIVOS	INDICADORES	MEIOS DE VERIFICAÇÃO	PRESSUPOSTOS																				
<b>A. FINALIDADE</b>																							
1. Gerar renda e emprego em turismo nas áreas do Programa	1.1 Número de empregos diretos gerados no setor de turismo aumenta conforme as metas:	1.1 Dados para os grupos de atividades econômicas 551, 552, 621, 622, 633, 711 e classes de atividades econômicas 60240 e divisão de atividades econômicas de Relatório Anual de Informações Sociais (RAIS) do Ministério de Trabalho e Emprego.																					
2. Contribuir positivamente para a conta de viagens da balança de pagos.	<table border="1"> <thead> <tr> <th>Área</th> <th>2002</th> <th>2010</th> <th>2015</th> </tr> </thead> <tbody> <tr> <td>Costa Oeste</td> <td>5,335</td> <td>7,160</td> <td>8,934</td> </tr> <tr> <td>Serra Gaúcha</td> <td>9,188</td> <td>12,574</td> <td>18,476</td> </tr> <tr> <td>Serra da Bodoquena</td> <td>961</td> <td>1,352</td> <td>1,726</td> </tr> <tr> <td>Litoral Catarinense</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Área	2002	2010	2015	Costa Oeste	5,335	7,160	8,934	Serra Gaúcha	9,188	12,574	18,476	Serra da Bodoquena	961	1,352	1,726	Litoral Catarinense					
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	1.3 Renda do ISS das municipalidades das áreas aumenta conforme as seguintes metas: referência (1997-2003). (milhões de R\$ constantes de 2003)	1.3 Dados dos Balanços municipais. Secretaria de Finanças Municipais e Tribunal de Contas Estaduais.																					
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	1.6 Estadia media de turistas nacionais nas áreas aumenta:  (noites) <table border="1" data-bbox="640 344 1066 467"> <thead> <tr> <th>Área</th> <th>2003</th> <th>2010</th> <th>2015</th> </tr> </thead> <tbody> <tr> <td>Costa Oeste</td> <td>3,1</td> <td>4,0</td> <td>4,5</td> </tr> <tr> <td>Serra Gaúcha</td> <td>9,4</td> <td>11,0</td> <td>12,0</td> </tr> <tr> <td>Serra da Bodoquena</td> <td>3,1</td> <td>3,6</td> <td>3,8</td> </tr> <tr> <td>Litoral Catarinense</td> <td>9,8</td> <td>10,2</td> <td>10,5</td> </tr> </tbody> </table>	Área	2003	2010	2015	Costa Oeste	3,1	4,0	4,5	Serra Gaúcha	9,4	11,0	12,0	Serra da Bodoquena	3,1	3,6	3,8	Litoral Catarinense	9,8	10,2	10,5	1.6 Pesquisa bianual de turistas.	
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<b>C. PROPÓSITO DOS COMPONENTES</b>																							
1. COMPONENTE 1  FORTALECIMENTO DA CAPACIDADE DOS ESTADOS E MUNICÍPIOS PARA PLANEJAR, GERENCIAR E APROVEITAR O TURISMO.  PROPÓSITO  Os Estados e os municípios melhoram sua capacidade de planejar, gerenciar e aproveitar os benefícios do turismo.	Numero de planos diretores implantados  Numero de planos de fortalecimento institucional implementados		Novos procedimentos de imigração y de visas no desalentam os turistas estrangeiros.  A valor relativo do Real no varia de maneira adversa a moeda dos principais países que geram a demanda para turismo																				
2. COMPONENTE 2  MELHORAS NOS ATRACTIVOS DE PROPRIEDADE PUBLICA E A GESTÃO DOS MESMOS  PROPÓSITO Os atractivos de propriedade publica recebem mais visitas e o nível de satisfação com as condições é satisfatório	<table border="1" data-bbox="640 1042 1075 1188"> <thead> <tr> <th>Atractivo</th> <th>Visitas em 2003</th> <th>Visitas em 2008</th> </tr> </thead> <tbody> <tr> <td>Atractivo</td> <td>% Qualificação Satisfatório em 2004</td> <td>% Qualificação Satisfatório em 2008</td> </tr> </tbody> </table>	Atractivo	Visitas em 2003	Visitas em 2008	Atractivo	% Qualificação Satisfatório em 2004	% Qualificação Satisfatório em 2008	Estatísticas de entrada  Pesquisa de satisfação	As melhoras em destinos que concorrem com as áreas do Programa não tem um impacto significativo sobre os segmentos do mercado atendidos por PRODETUR/SUL.  Novos actos de terrorismo não afectam a demanda internacional de turismo.														
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<p>3. COMPONENTE 3</p> <p>INFRA-ESTRUTURA PARA PERMITIR O ACESSO, PROVER SERVIÇOS PÚBLICOS E CONTROLAR IMPACTOS AMBIENTAIS</p> <p>PROPÓSITO A infra-estrutura da área permite acesso e a provisão de bons serviços aos turistas.</p>			
<p>4. COMPONENTE 4</p> <p>PROMOÇÃO NA PROVISÃO DE INFORMAÇÃO</p> <p>PROPÓSITO A comercialização das áreas e a provisão de informação no sitio atrai mais turistas para as áreas e induz uma estadia mais longa.</p>	<p><u>Web site</u>    # de consultas    # de consultas                          <u>Em 2003</u>                    <u>em 2008</u></p> <p>Costa Oeste Serra Gaúcha Serra da Bodoquena Litoral Catarinense</p> <p>% satisfeito            <u>Em 2003</u>                    <u>em 2008</u> com sinalização <u>turística</u></p> <p>Costa Oeste Serra Gaúcha Serra da Bodoquena Litoral Catarinense</p>	<p>Dados dos sites dos Estados</p> <p>Pesquisas de satisfação realizadas pelo Programa</p>	

OBJETIVOS	INDICADORES	MEIOS DE VERIFICAÇÃO	PRESSUPOSTOS
<p>5. COMPONENTE 5</p> <p>APOIO AO SECTOR PRIVADO PARA QUE PROVEJA SERVIÇOS TURÍSTICOS E DE INFRA-ESTRUTURA</p> <p>PROPÓSITO O sector privado esta induzido a melhorar a qualidade dos serviços turísticos, proporcionar novos e investir em serviços de infra-estrutura.</p>	<p>Número de graduados dos programas de capacitação.</p> <p>Número de estudos de oportunidades de investimento privado.</p> <p>Número de oportunidades aceites e efectuadas pelo sector privado</p>		