

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

MEXICO

TOURISM DEVELOPMENT PROJECT ON THE COAST OF QUINTANA ROO

(ME0016)

LOAN PROPOSAL

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MEXICO. FINANCING PROPOSAL FOR A TOURISM DEVELOPMENT PROJECT
ON THE COAST OF QUINTANA ROO

I. BACKGROUND

1. During the Meeting of the Board of Governors in Bogota, in April 1968, the Secretario de Hacienda y Crédito Público of Mexico proposed to the President of the Bank the possibility of IDB participation in financing a program of infrastructure works for tourism development. When IDB missions visited Mexico in November 1968 and February and March 1969, conversations were held with the Mexican authorities regarding possible presentation of a tourism program.
2. The Board of Executive Directors, on August 1, 1968, approved Document GN-436-3 containing provisional criteria for the consideration of tourism projects, stating that such projects submitted to the Bank will be handled on an ad-hoc basis and that the proposals formulated should be submitted to the Board of Executive Directors for preliminary consideration and determination of the general guidelines, sources of funds and special considerations to be adopted in analysis of the respective projects.
3. In the course of a mission carried out in July and August 1969, the Mexican authorities submitted a memorandum, through the Banco de México, S.A., describing a tourism infrastructure project to be executed on the coast of Quintana Roo, and particularly on Isla Cancún. Later, in a letter dated August 21, 1969, the General Credit Director of the Secretaría de Hacienda y Crédito Público officially stated the Government of Mexico's intention of submitting to the IDB for consideration the proposal for financing of the works to be executed in that area and a similar one subsequently for the coast of the State of Oaxaca.

II. PROGRAM DESCRIPTION

4. The Mexican authorities' proposal is designed to consolidate and expand at short and intermediate term the number and spending of foreign tourists in the provinces. Along these lines, thought has been given to a program of tourism infrastructure works with the following four fundamental aims:
 - a. To promote new sources of employment, chiefly in areas with a high tourism potential and a large rural low-income population.
 - b. To encourage, through the establishment of comprehensive tourist centers, regional development in order to stimulate new agricultural, industrial and craft activities.

- c. To improve and diversify Mexico's centers of tourist attraction, in order to expand foreign tourist travel to Mexico, and
 - d. To increase receipts on current account of the balance of payments.
5. In order to attain the purposes of the abovementioned program, the Mexican authorities have selected the coast of Quintana Roo, mainly because of its location on the Yucatan Peninsula, its geographic position vis-à-vis the Caribbean islands, its status as one of the most dynamic tourism regions and the most important in that zone, and its proximity to the principal centers of tourism revenue and supply of the United States, as indicated by the air distances from the United States and Canada to various centers of the Caribbean in the following table:

Comparative Air Distance from Selected Cities to
Various Caribbean Centers

<u>To</u>	(In miles)					
	<u>New York</u>	<u>Miami</u>	<u>Chicago</u>	<u>Dallas</u>	<u>New Orleans</u>	<u>Los Angeles</u>
Isla Mujeres 1/	1,539	517	1,432	879	557	2,112
Miami, Florida	1,091	-	1,198	963	586	2,030
Nassau, Bahamas	1,098	184	1,312	1,118	742	2,460
Kingston, Jamaica	1,562	588	1,785	1,404	1,032	2,786
San Juan, Puerto Rico	1,601	1,044	1,968	1,869	1,493	3,378
St. Thomas, Virgin Islands	1,629	1,106	2,116	1,922	1,546	3,342
Port-of-Spain, Trinidad	1,921	1,411	2,344	2,369	1,991	3,412
Bridgetown, Barbados	2,092	1,611	2,624	2,362	1,985	3,941

6. Within the abovementioned zone, Isla Cancún has received particular attention. This island is located on the eastern coast of the Yucatan Peninsula, in the territory of Quintana Roo. It is important to mention the natural tourism resources of the region, primarily beaches, sea and climate, which are apparently better than those of similar centers in the Caribbean. Throughout the year there are cool pleasant breezes comparable to conditions in Cozumel or Isla Mujeres. The area is scantily populated and the closest centers are Isla Mujeres with 2,000 and Cozumel with 6,000 inhabitants. Its white sand beach covers approximately 18 kilometers, bordering Nichucte Lake on the farside. Annual rainfall is less than 900 mm. and the average annual temperature approximately 27.5°C.

1/ Located opposite Isla Cancún.

7. Development of Isla Cancún would permit an extension of the average stay of the tourists traveling to the Yucatan Peninsula to visit the archeological zones of Chichen-Itza, Tulum, Koba, etc.

III. THE PROJECT

8. In order to achieve the abovementioned purposes, the Mexican authorities have suggested the possibility of carrying out the following works:

<u>Public Investment</u>	<u>(Equivalent in millions of US\$)</u>
1. International airport	4.16
2. Access roads (approximately 16 km.)	0.96
3. Two-lane movable bridge	0.30
4. Water supply - tourist zone and city service	3.44
5. Drainage	
Urban zone - septic tanks	
Tourist zone - treatment plant	0.18
6. Electricity	2.56
7. Telephones	0.16
8. Fuels	0.32
9. Housing urban zone (1,000 units)	2.56
10. Commercial zone including film theater-auditorium	0.48
11. Docks and yacht club	0.40
12. Conditioning tourist zone	0.96
13. Golf course	0.48
14. Improvement on Isla Mujeres	0.08
15. Land acquisition	0.16
	<hr/>
Subtotal	17.20
Contingencies 15%	2.58
	<hr/>
Total public investment	19.78
<u>Private investment</u>	
1970-72 - 1,000 hotel rooms	20.00
	<hr/>
<u>Total estimated investment</u>	<u>39.78</u>

The basic aspects of the part of the program to be financed with public resources would consist of: a) an international airport with sufficient runway length to permit the operation of DC-8, DC-9 and Boeing 707 and Boeing 727 planes, with the possibility of expanding it for jumbo aircraft; b) water supply with a potential volume sufficient to meet demands for a population of up to 40,000; c) sewerage and storm drains; d) facilities and distribution of electric power to be generated by a mobile

thermoelectric plant until a direct hook-up is made with the national system; e) balanced, systematic urban development through a master plan, provision of municipal utilities and construction of approximately 1,000 housing units, with possible private banking participation in the financing of the latter items through the Fondo de Operación y Descuento Bancario a la Vivienda (FOVI); f) improvement of the tourist zone including gardens, filling and dredging, golf courses, tennis courts and docks on Nichucte Lake with all essential water recreation services including a yacht club and g) telephones, fuel deposits and a general commercial and recreation zone.

In addition, and though not included in the preliminary presentation of the financial program, approximately US\$400,000 might be allocated to recondition and reconstruct the archeological ruins of Tulum, Koba and other sites.

10. The private investment to supplement the public investment noted above is estimated at US\$20 million and would represent basically the construction of about 1,000 hotel rooms. In this connection, the Mexican authorities point out that informal proposals for financing this investment have already been received, including some offers from abroad. These commitments could take definite form with dates and terms as soon as initiation of the public infrastructure investments mentioned above are assured.

IV. MARKET

11. From the standpoint of prospects for a flow of tourists to the zone, conversations have been held with officials of major United States airlines to sound out their interest and take advantage of their market studies to study direct air routes at suitable rates competitive with those prevailing in the Caribbean. In addition, the Secretaría de Comunicación y Transportes has agreed in principle with these negotiations and no excessive delays in their formalization are anticipated.
12. From the standpoint of attracting tourist trade, the proposal utilizes statistical data on U.S. tourists traveling to the Caribbean. Taking this volume as a starting point, it is estimated that tourism could expand at the following annual rates: to the Caribbean generally, 13.1%; to the Bahamas and Barbados, 7.5%. The growth rate for U.S. tourism to the interior of Mexico is estimated at 9.7% per annum. The proposal mentions that a conservative goal has been set for attracting to the zone 10% of the expansion in tourist trade to the Caribbean starting in 1972 and an additional 1% to 2% in future years. With the works completed, the study estimates that the zone could also attract, starting in 1972, approximately 50% of the annual increase in foreign tourists visiting the Yucatan Peninsula.

V. STUDIES AND CONSTRUCTION

13. The technical studies are being sponsored by the Banco de México with the cooperation of consultants especially contracted for the purpose. According to information received from the Banco, the master plan is in a very advanced state, as are the geological and bathymetric studies and studies of wave, wind and tidal movements, water supply and drainage, and urban development. According to the same source, the detailed studies, up to the project level, are being prepared with the cooperation of various Mexican Government organizations, and could be available to the IDB during the next few months.
14. With respect to the term for conclusion of the program works, it is hoped that, if the necessary resources are available, they could be completed in two years, with start up in 1972. By that date, it is believed that approximately 750 hotel rooms could be ready, with an additional 250 rooms added each year until a goal of 2,000 is reached by 1978.

VI. SOCIO-ECONOMIC JUSTIFICATION OF THE PROJECT

15. The economic and social justification of the project are based fundamentally on: a) its impact on regional development; b) effect on employment; c) multiplier effect; d) cost-benefit ratio, and e) impact on the balance of payments with regard to generation of foreign exchange. The analysis of the foregoing aspects is summarized below.

a. Regional Development

The Mexican authorities hope these works will create a new zone of economic activity and simultaneously an important source of employment, which will in turn make it possible to increase the demand for services and goods, together with a series of economic activities that would have a significant impact on the project area and the Yucatan Peninsula. In addition, the Mexican authorities believe that, on the basis of the tourism industry, it will be possible to establish a broad range of commercial, agricultural and industrial activities on the Yucatan Peninsula that will make the region an important center of multiple activities.

In this aspect, cooperation would be sought from organizations whose assistance would make possible a balanced development of industrial, agricultural, craft and other activities.

b. Employment

According to data supplied by the Banco de México, it is estimated that, based on the production-employment ratio, for every one million pesos (US\$80,000) increase in tourist spending at 1960 prices, 45.6 persons will be directly employed, 20 of them in the service sector, 18 in the agricultural sector, two in the manufacture of textiles and 1.5 in the production of food, beverages and tobacco,

and the rest in the other economic sectors. The Banco de México, S.A. estimates that the project could generate directly the following jobs up to 1980:

<u>Year</u>	<u>No. of tourists</u>	<u>Estimated spending in million of pesos</u>	<u>Direct employment</u>
1972	42,914	65.7	2,996
1977	211,440	326.4	14,884
1980	329,015	441.3	20,123

As can be noted, these estimates refer solely to direct employment on the basis of expected tourist spending and do not include the indirect or secondary effects.

The Banco de México considers this effect to be of particular importance in the light of the region's low income and the existence of substantial concealed unemployment (annual income of beneficiary workers is estimated at approximately US\$108).

c. Multiplier Effect

On the basis of preliminary data from the 1968 National Tourism Survey, now being prepared by the Departamento de Estudios Económicos of the Banco de México, S.A., it was calculated that the multiplier of long-range tourism revenue is 6.5 times the initial expense, taking into account the increase in foreign demand and its induced investment.

d. Benefit-cost

For the pertinent effects, the Banco de México has made a preliminary estimate, from the standpoint of costs, of total investment required for the project of approximately US\$39.8 million, to which must be added the additional private investment up to 1977 of another US\$20 million. From the standpoint of revenue, income generated by tourists from the start of the project up to 1995 has been estimated and 70% deducted for operating and maintenance expenses. Discounting the resulting net flows, return is 12%.

e. Balance of Payments

The Banco de México has estimated the impact on the balance of payments at US\$30 million yearly by 1980.

The foregoing figures are preliminary and subject to change in the light of the detailed studies now being completed.

VII. CONCLUSIONS AND RECOMMENDATIONS

16. As a result of analysis of the preliminary proposal on tourism infrastructure prepared by the Banco de México, S.A. and of the preliminary conversations held by the IDB mission that visited Mexico in July and August 1969, the following conclusions, among others, can be drawn:
 - a. The zone selected for execution of the project is undeniably attractive to tourists because of its physical features and boating and sport facilities.
 - b. The zone is located a comparatively short distance from the United States and is very close to the Mayan archeological centers on the Yucatan Peninsula.
 - c. The proposal has been comprehensively conceived and the project will provide supporting and service infrastructure investments, as well as housing and supplementary works, which, in principle, appear adequate for the stated objectives.
 - d. The project could be expanded by a still unspecified amount with a view to reconstructing and conditioning the archeological ruins of Tulum, Koba and smaller sites on the Yucatan Peninsula.
 - e. The foreseeable impact of the project, from the standpoint of gross national product, level of employment, balance-of-payments and cost-benefit ratio, is considered favorable, on a preliminary basis, although available information does not yet permit an opinion on the feasibility of the proposal.
 - f. In the light of the project's effects with respect to improved living standards for the rural population of Yucatan and the coast of Quintana Roo, utilization of soft resources to finance part of the project cost could be studied.
 - g. The project, as proposed, includes public sector investments totaling the equivalent of US\$19.78 million and private sector investments in the equivalent of US\$20 million. In view of the problems that might arise in connection with the identification of certain pre-projects of the private sector, adaptation of their execution to the Bank's procurement standards and supervision of their contributions, it is deemed preferable to restrict the scope of the project to public investment and that part of the private sector for which suitable technical studies are available and which entail no problems in applying the Bank's standards. Nonrecognition of the part of the local contribution corresponding to other private investment would be offset by a comparatively larger share of Bank resources.
17. For the foregoing reasons, the Operations Department recommends that the loan application to be submitted in the near future by the Mexican authorities be considered on the following basis:

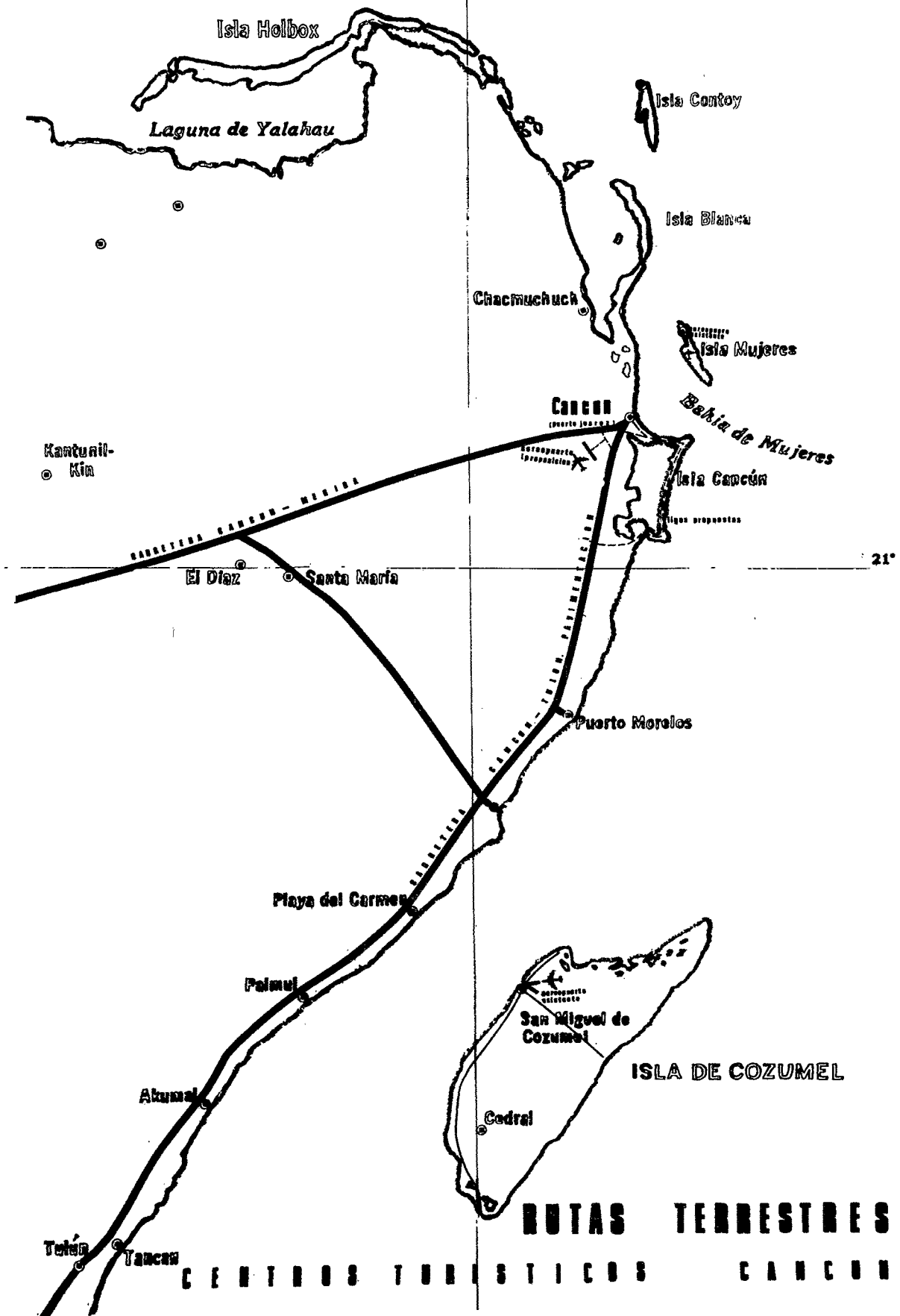
- a. That the project be limited to the following:
 - i. Public sector investments;
 - ii. Private sector investments formalized or ready for formalization during the period of loan negotiations and those for which suitable technical studies and designs are available.
- b. That the resources of the prospective loan be used exclusively to finance the infrastructure works corresponding to the public sector.
- c. That the Bank financing be approximately 60% of the total cost of the project, in accordance with the provisions of subparagraph a) above.
- d. That the Bank financing be drawn chiefly from the ordinary capital resources and, to the extent that the project benefits the current rural population of Yucatan and the territory of Quintana Roo, from the resources of the Fund for Special Operations.
- e. That the project be studied on the basis of the technical, economic, financial and legal feasibility studies and such engineering studies as may be necessary.
- f. That the project include an item whose amount would be determined during its analysis, to cover i) the cost of reconstructing and conditioning archeological ruins, and ii) the possible addition of supplementary project works not yet determined. With a view to more flexible utilization of the resources for financing this part of the project, consideration could be given to a comprehensive approach whereby the authorities of Mexico could approve subprojects under this item, within a certain autonomous limit, with the understanding that the Bank would be consulted on any amount over that limit.
- g. That a clear definition be formulated, sufficiently in advance of the start of the works, of the status of land tenure in the immediate area of influence of the Isla Cancún project and of the machinery for future land distribution.

APPENDED CHARTS

- A. Land routes
Cancún Tourist Center
- B. Cancún Tourist Center
General view
- C. Tourist Center
Caribbean triangle

69/2807

87°
GRAFICO A



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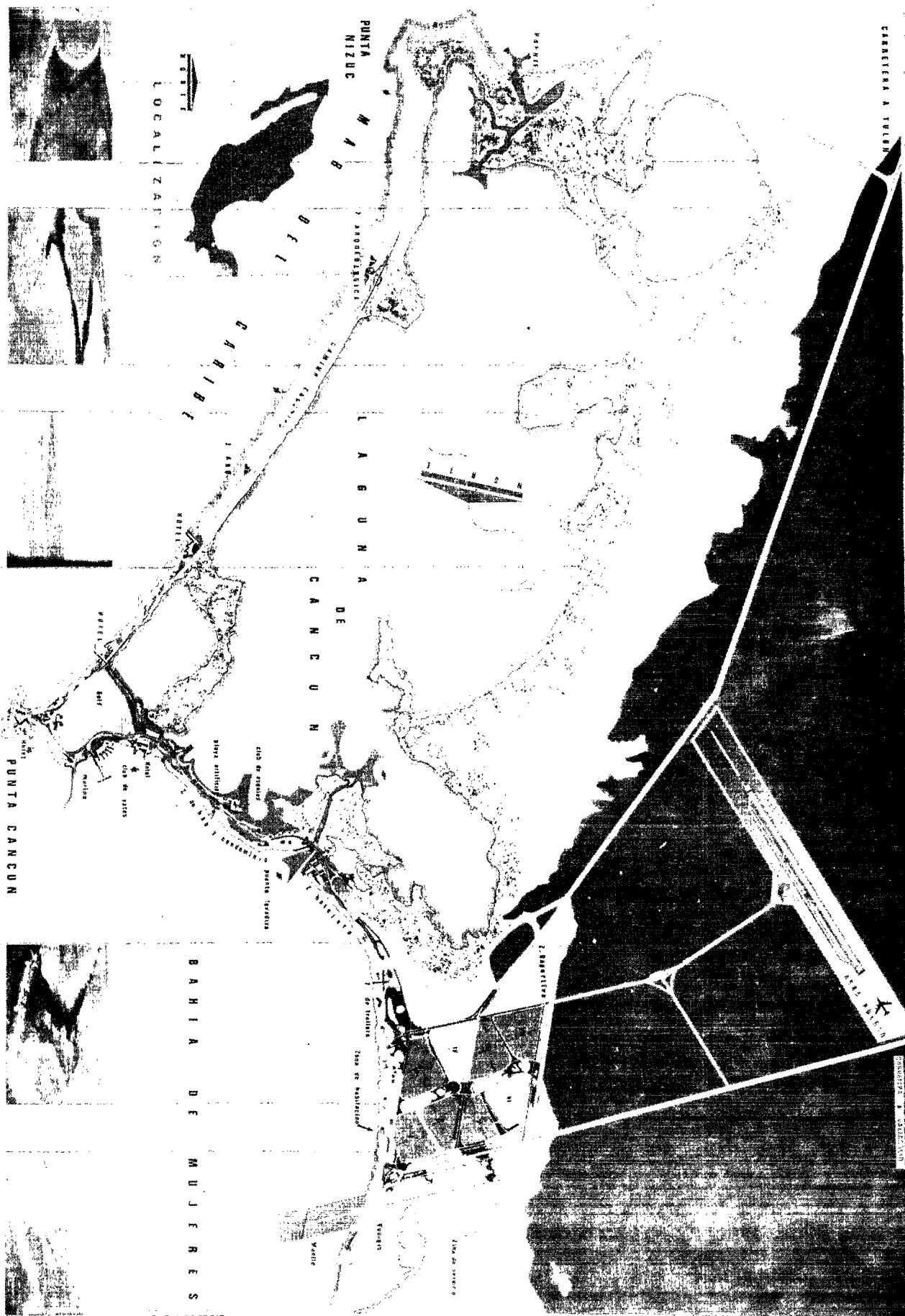


GRAFICO B

ENRIQUE LANDA W.
AGUSTIN LANDA V.
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ISLA DE COZUMEL

ISLA MUJERES

ISLA CONTUY

ISLA BLANCA

CANCUN

ISLA CANCUN

PUERTO MORELOS

MOCTE

SAN MIGUEL DE CIZNUEL

FEDRAL

GRAFICO C

PLAYA DE SAN PEDRO

SANTA MARIA
LEDNA VICARIO

RIO TORDIO

RIO VIEJO

SOLFERINO

KANTUNIL-KIN

YUJOL

ATUMAL

TULUM

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CENTROS TURISTICOS TRIANGULO DEL CARIBE

ENRIQUE
AGUSTIN
GARCIA
Arg JAVIER SOLER