

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**MEXICO**

**CANCUN TOURISM DEVELOPMENT PROJECT (SECOND STAGE)**

**(ME0039)**

**LOAN PROPOSAL**

MEXICO

CANCUN TOURISM DEVELOPMENT PROJECT (SECOND STAGE)

LOAN SUMMARY

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MEXICO

CANCUN TOURISM DEVELOPMENT PROJECT (SECOND STAGE)

LOAN SUMMARY

1. Summary evaluation of earlier loan

The Bank granted Loan 217/OC-ME to assist in financing the first stage in the integrated development of tourism infrastructure on the island of Cancún and nearby areas. Following is a summary of the main characteristics and salient features of the development of that stage:

Description: Construction of the various tourism infrastructure works in the Cancún area, 1/ certain sanitation facilities on Isla Mujeres, and reconditioning of archeological sites on Yucatan peninsula.

Approximately 72% of the cost of the investment in that first stage corresponds to categories pertaining to works in the tourism zone; the other 28% corresponds to works of a social nature to benefit the service population.

In the second stage, for which the new Bank loan is being proposed, 53% of the investment costs would go for social outlays (except housing) and the other 47% for construction of facilities in the tourism zone.

Amount of loan: US\$24,166,000. 2/

Total cost of project: US\$47,100,000. 3/

Disbursed as of March 31, 1976: US\$21,500,000. (89%)

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1/ Such as the international airport, a bridge, dredging and landfills, water supply and sanitary sewer systems, power transmission lines, installation of a telephone exchange, urban improvements, etc.

2/ The original amount of the loan was US\$21,500,000, which is 46% of the total cost; it has been increased, however, as a result of the new par value of the dollar against currencies of nonmember countries.

3/ The final updated cost of the first stage is the equivalent of US\$73,000,000; the over-run is being charged the national contribution. The higher costs were due primarily to: (a) need for additional work to meet unforeseen demands for goods and services; (b) inflation, and (c) unanticipated geologic conditions in the zone.

Committed as of March 31, 1976: 100%

Dates:

- (a) Approval by Board of Executive Directors: August 5, 1971
- (b) Contract signature: September 29, 1971.
- (c) First disbursement: March 29, 1972.
- (d) Last disbursement: June 29, 1976.

Compliance with contractual clauses

It is felt that the objectives in view when the loan was approved have been reached and, in some cases, surpassed. Not only has the volume of construction been larger than planned (32% above the target) but also this construction has induced a flow of private investment in hotels, housing and commercial buildings of a magnitude unforeseen in the analysis of the first stage of the project. The current evaluation offers an opportunity to highlight the additional targets attained, particularly the project's social impact.

The local counterpart was sufficient and prompt, and at no time did any difficulties arise in project execution. The contractual clauses have been fully complied with.

General comments on Cancún first stage performance

Cancún Stage I exercised a "magnetic attraction" throughout the country. The area's population has risen from 171 to the present 10,000 inhabitants. While it was expected that most of the migrants would come from Yucatan peninsula, little knowledge was available about the possible reactions of these Mayan descendents to types of work rather different from their traditional occupations. Accordingly, even as work progressed on the tourism infrastructure, a continuing social welfare program was organized to guide the incoming workers and their families, to train personnel and to help convert the new arrivals into permanent settlers of the nascent town.

Protection of the natural environment is another significant aspect of the work. The ecological studies included within the project financing - the recommendations of which are being fully applied - have made it possible to transform a virtually uninhabitable jungle area into an area offering suitable conditions for the ever-more-demanding tourist industry. At the same time as the native wildlife and vegetation are being protected, insects are being eliminated and the flora formerly existing in the area is being recreated.

The multiplier effect associated with projects of this type is also evident. The availability of the initial infrastructure facilities generated an inflow of national tourists in such volume that it was necessary to repair a secondary landing field for temporary use in receiving the visitors.

The international airport is now in service and charter flights have been added to those of regularly scheduled national and international airlines.

The Mexican authorities are determined to prevent speculation in land. Thus, prospective purchasers of lots, both in the urban and tourism areas, are required by FONATUR, as a condition of sale, to submit final plans for the facilities to be built. FONATUR also fixes a deadline for the start of construction.

1975 was the first year of operations in Cancún. Following is a summary of statistical information for that year:

1975	No. of rooms	Annual occupancy rate (%)	Persons registered in hotels			Arrival of passengers at airport
			Mex.	For.	Total	
Jan. /	1,322	47.1	72,251	27,186	99,437 <sup>1/</sup>	55,540
Dec.			(74%) <sup>2/</sup>	(26%)		

The first stage of the Cancún project has had a positive effect on income distribution in the region. Families in the lowest 40% of the income scale receive 20% of total income in Cancún, compared with only 11% at the national level.

The vast majority of families that moved to Cancún are receiving much higher wages than they were getting in their former place of residence. The average monthly wage being received by workers in September 1975 was US\$71 above their previous wage. This increase is not, of course, an exact measure of the rise in the worker's standard of living. On the one hand, it does not take account of the rise in the cost of living in Cancún, while on the other it overlooks such services as water, electricity, health, education, etc., which the people are receiving for the first time or at a relatively lower price.

<sup>1/</sup> The forecast made at the time Cancún I was studied was that the number of arriving tourists in the first operation would be between a maximum of 140,700 and a minimum of 91,900.

<sup>2/</sup> Owing mainly to improved air connections with cities in the United States in the last two months of 1975 the proportion of foreign tourists was 43% and that of domestic tourists 57%. This is a positive sign of progress in achieving the aims sought in regard to the structure of tourism.

The competent national authorities are taking steps to encourage the development of farming and livestock raising in the area to support the proposed development of tourism.

2. Description of Cancún II

The project is a continuation of the comprehensive development of tourism infrastructure on the island of Cancún and its area of influence, lying along the coast of Quintana Roo state on Yucatan peninsula.

The purpose of the project is to consolidate infrastructure works and tourism and urban facilities, to which end the following package of works and activities will be carried out:

- (a) In the tourism zone: Widening of the Nichupté bridge and the access roads to beaches and hotels; dredging, landfills, breakwaters, and jetties for nautical sports; water supply, sewerage, energy generation and transmission and electric lighting for new hotel lots; arrangement and conditioning of parks and boulevards in public areas, public beaches, berths for boating, a marina, and restoration of archeological sites.
- (b) In the urban zone: Water supply, sewerage, electrification, grading and paving for urbanization of seven manzanas of land to be used for housing and shops for the local population, reconditioning of streets, avenues, a park and plazas, construction of a secondary school and enlargement of a tourism training school; improvement of the sports field and two zonal markets for supply of essential goods.

3. Total cost of project

(In US\$ thousands or equivalent)

Investment Categories	Foreign Exchange			Local		%
	Direct	Indirect	Total	Currency	Total	
1. Sanitary Engineering	320	2,590	2,910	5,550	8,460	17
2. Energy <u>1/</u>	168	1,110	1,278	3,010	4,288	9
3. Transportation	-	3,817	3,817	6,308	10,125	20
4. Tourist Attractions	82	393	475	2,292	2,767	6
5. Services Program	-	307	307	573	880	2
Subtotal	570	8,217	8,787	17,733	26,520	54
6. Contingencies	115	1,641	1,756	3,554	5,310	11
7. Cost escalation	180	3,577	3,757	4,058	7,815	15
Subtotal	865	13,435	14,300	25,345	39,645	80
8. Complementary activities:						
- Community development <u>1/</u>	-	80	80	640	720	2
- Promotion <u>1/</u>	1,200	-	1,200	800	2,000	4
9. Projects and Administration <u>1/</u>	200	-	200	3,000	3,200	6
10. Financial charges:						
- Interest	2,600	-	2,600	715	3,315	7
- Credit Commission <u>1/</u>	320	-	320	100	420	1
- Inspection and Supervision	200	-	200	-	200	-
TOTAL	<u>5,385</u>	<u>13,515</u>	<u>18,900</u>	<u>30,600</u>	<u>49,500</u>	<u>100</u>
Percentages	10.9	27.3	38.2	63.8	100.0	

4. Financing plan

The project would be financed as follows:

(In US\$ thousands or equivalent)

	Currency of Origin		Expenditures to be incurred		Total	%
	Foreign	Local	Foreign	Local		
	Exchange	Currency	Exchange	Currency		
OC Loan	15,000	5,000	15,000	5,000	20,000	40.4
National contribution	-	29,500	3,900	25,600	29,500	59.6
Total	<u>15,000</u>	<u>34,500</u>	<u>18,900</u>	<u>30,600</u>	<u>49,500</u>	<u>100.0</u>
Percentage	30.3	69.7	38.2	63.8	100.0	

1/ To be financed only with local contribution.

5. Terms and conditions of the loan

- (a) Amortization: 18 years
- (b) Grace period: 4-1/2 years
- (c) Period for physical commencement of works: 2 years
- (d) Disbursement period: 4 years
- (e) Interest: 8% per annum
- (f) Inspection and supervision charge: 1% of the loan amount
- (g) Credit commission: 1-1/4% per annum on undisbursed portion of loan.

6. Borrower and guarantor

The borrower would be Nacional Financiera, S.A. (NAFINSA) in its capacity as financial agent of the government. The loan would be jointly and severally guaranteed by the Estados Unidos Mexicanos.

7. Executing agency

The executing agency would be NAFINSA as trustee of the Fondo Nacional de Fomento al Turismo (FONATUR), a tourism promotion trust fund set up under an agreement between the Ministry of Finance and Public Credit and NAFINSA.

Due to the importance of tourism for Mexico and the need for effective coordination of efforts directed to comprehensive development in this field, the Federal Government on April 16, 1974 established a trust fund known as FONATUR to be administered by NAFINSA. This fund absorbed the assets of two then-existing trust funds: Fondo de Promoción de Infraestructura Turística (INFRATUR), administered by Banco de México, S.A., and Fondo de Garantía de Fomento al Turismo (FOGATUR), administered by NAFINSA. Legal establishment of FONATUR was based on the Federal Tourism Development Law of January 28, 1974, according to which the purpose of FONATUR is to "advise, develop and finance tourism promotion plans and programs". As in the first stage, FONATUR is considered to have the requisite technical and administrative capacity for carrying out the project.

8. Status of designs

Following is a summary of the status of the final designs and specifications for works included in the project.



<u>Subproject</u>	<u>Designs for bidding</u>	<u>Specifications</u>
<u>Sanitary engineering</u>	Ready for 50% of the works. Designs for remaining works well advanced.	Expected to be completed by September 1976. (Calls for 11 bidding operations will be issued during the fourth quarter of 1976.)
<u>Transportation</u>	Ready for 100% of works.	Only those for the marina not ready. They are expected to be completed in May 1976.
<u>Electric power</u>	Ready for 80% of works.	Ready for 80% of works. (Last calls for bids will be made in November 1976.)
<u>Tourist attractions</u>	Ready for 70% of works. Timetable for restoration work also ready.	Ready for 70% of works. Timetable for restoration work also ready.
<u>Community services</u>		
- Schools	100% completed	Construction started
- Markets	100% completed	100% completed
- Sport Field	Being prepared	Being prepared

9. Procurement of goods and services

In the acquisition of equipment and machinery and in the awarding of construction contracts for the project, the system of public bids will be followed in each case in which the unit or overall value exceeds the equivalent of US\$50,000. Acquisitions to be financed in whole or in part with foreign exchange from the loan would be subject to international bidding. Bidding restricted to the national level would be acceptable for acquisitions financed with local currency from the loan or from counterpart funds. The Bank's margins of preference policy will be applied in bidding operations under the project.

Agreement has been reached with the Mexican authorities on application of a bidding procedure substantially similar to that used in Loan 217/OC-ME, which partially financed the first stage of Cancún.

Notwithstanding application of the general criteria with respect to acquisition of goods and services, the loan contract will contain a provision whereby the Bank may agree to waive the public bidding requirement on a total amount of up to the equivalent of US\$3,200,000

of expenditures which are to be financed out of the loan contribution and are related to the landscaping, archeological restoration and school construction subprojects. In the case of landscaping and archeological restoration, the very nature of this type of work justifies the exception. As for schools, the exception arises from the fact that they will be built by the Management Committee for School Financing and Construction (CAPFCE), which has its own construction department and builds schools around the country. The schools it builds are all similar in design, since they are based on standard classroom models resulting in lower costs.

10. Retroactive recognition of financing

The borrower has requested the Bank to provide retroactive recognition of financing in view of the fact that the new loan would assist in financing the second stage of the tourism development and social benefit infrastructure project begun with Loan 217/OC-ME. The proposal to this effect is for recognition of expenditures incurred since October 21, 1975. Up to the equivalent of US\$4,900,000 would be charged to the local contribution and up to the equivalent of US\$2,100,000 to the Bank's loan. This recognition would be contingent on fulfillment of requirements substantially similar to those laid down in the resolution and in the pertinent loan contract.

11. Auditing of financial statements

During the entire period of validity of the borrower's obligations to the Bank, the annual financial statements of the borrower and of the project, certified by a firm of independent auditors acceptable to the Bank and meeting requirements satisfactory to the Bank, will be submitted to the Bank within such deadlines as agreed.

12. Principal aspects

a) Economic evaluation

In the case of integrated tourism projects such as this, the interdependence among the parts and of each with the whole, calls for a first analysis of an overall kind that will show whether the total costs and the total benefits as projected render the project profitable. From this standpoint the project being considered herein is regarded as economically viable because of its positive impact, reflected in the fact that the present net value of this second stage, estimated on the basis of the low-demand hypothesis, is US\$5,300,000 at a discount rate of 12%.

However, in order to check the timeliness of the investment in each part and determine on which parts FONATUR ought to concentrate its greatest efforts in the areas of administration and operation so as to strengthen the weakest subprojects, a separate economic analysis was also made for each group of works. In this analysis the results are favorable for the facilities to serve the permanent population (urbanization, water supply and sewerage, electrification, landscaping and services related to the urban zone) and for all works related to hotel development. <sup>1/</sup> Construction of the marina (excavation of the approach channel, construction of breakwaters and piers) has a rate of return of only 5% because it is part of a more ambitious program that may eventually include other construction (artificial islands, golf courses and condominiums).

In any event, availability of the marina will constitute a significant tourist attraction that will help to capture potential demand and lengthen the average stay of tourists.

b) Rates

Loan contract 217/OC-ME stipulated that the water supply and sewerage rates under the Cancún I project should, from the eleventh year after the date of the loan contract, produce revenues at least sufficient to cover all the operating expenses of the system, including those related to administration, operation, maintenance and depreciation.

This contractual requirement is to be satisfied on and after September 28, 1982. The Ministry of Water Resources (SRH) made a rates study with projections up to 1989 and has proposed a schedule of rates for approval by the Quintana Roo state legislature. The proposed rates would amply fulfill the above-mentioned contractual requirement.

13. Special aspects

No exceptions to the practices and policies normally applied in similar operations are being proposed by the Bank for this project.

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<sup>1/</sup> The sensitivity analysis on construction of the facilities for the permanent population and of the highway and bridge indicate that this construction is justified even on the basis of more pessimistic assumptions than those used in the base case.

PROPOSED RESOLUTION

MEXICO. LOAN TO NACIONAL FINANCIERA, S.A.  
(Cancún Tourism Development Project,  
Second Stage)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Nacional Financiera, S.A., of Mexico, as borrower, and the United States of Mexico, as guarantor, for the purpose of granting the former a loan to cooperate in the financing of a project consisting of the execution of tourism infrastructure works and works of social benefit on the island of Cancún and its area of influence, located within the Benito Juárez municipality, State of Quintana Roo. This loan shall be subject substantially to the following conditions:

1. Amount and Currencies: Up to US\$20,000,000, or the equivalent in other currencies which are part of the ordinary capital resources of the Bank, of which amount (a) up to US\$15,000,000 or the equivalent in other currencies (except that of Mexico) shall be disbursed to pay for goods and services acquired through international competition and for such other purposes as may be specified in the loan contract; and (b) up to the equivalent of US\$5,000,000 in Mexican pesos shall be disbursed to cover local expenses. Payments of amortization and interest shall be effected proportionately in the currencies disbursed.
2. Source of Funds: The ordinary capital resources of the Bank.
3. Guarantee: Full guarantee of the United States of Mexico.
4. Credit Commission: 1-1/4% per annum on the undisbursed portion of the loan, commencing to accrue 60 days after the date of the contract and payable on the same dates as the interest. The commission shall be payable in dollars of the United States of America, except the part corresponding to the amount of the loan authorized in Mexican pesos, which shall be payable in that currency in accordance with its equivalence in dollars.

5. Amortization: The borrower shall amortize the loan in a period of 18 years from the date of the contract, by means of 28 consecutive, semiannual and, so far as possible, equal installments. The first installment shall be paid 4-1/2 years after such date.
6. Interest: 8% per annum (including the 1% special commission of the Bank), payable semiannually on principal amounts outstanding. The first payment shall be made 6 months after the date of the contract. At the request of the borrower, resources from the loan may be used to pay the interest in foreign exchange during the disbursement period.
7. Physical Initiation and Disbursement: Physical initiation of all the works included within the project shall take place within a period of 2 years after the date of the contract. Total disbursement of the resources of the loan shall be made within a period of 4 years after the date of the contract.
8. Special Conditions:
  - (a) The resources of the loan shall be utilized in their entirety by the borrower in its capacity as trustee of the Federal Government of the trust fund known as "Fondo Nacional de Fomento al Turismo" (hereinafter called "FONATUR"). The borrower or the guarantor shall inform the Bank, within a reasonable period, of any amendments or modifications to be introduced, respectively, in the legal provisions or in the basic regulations concerning the borrower and FONATUR, and/or the trust fund known as "Puerto Juárez," so that the Bank may determine whether such modifications affect or may substantially alter the project, and may take such action as it deems appropriate in accordance with provisions to be set forth in the loan and guarantee contracts.
  - (b) The loan shall be used to cooperate in the financing of a project estimated at the equivalent of US\$49,500,000. Consequently, the loan contract shall contain such provisions as the Bank deems appropriate to ensure that such national resources as may be necessary, in addition to the loan, for the complete execution of the project shall be duly provided in an amount estimated at the equivalent of US\$29,500,000 in accordance with a schedule of investments satisfactory to the Bank.
  - (c) Each payment of principal and interest on the amount loaned in Mexican pesos shall be made in that currency, in a quantity equivalent to the value of the corresponding dollars at the rate of exchange in effect in the free market on the due date, or such other rate of exchange as may be appropriate for such payments, in accordance with provisions to be included in the loan contract.

- (d) The borrower and the guarantor shall take the appropriate measures so that the rates for the water supply and sewerage services of the specific systems to which the loan relates produce as from September 29, 1982, and throughout the entire life of the loan: (i) revenues at least sufficient to cover all the operating expenses of the respective systems, including those relating to administration, operation, maintenance and depreciation; and (ii) if the flow of funds available from the foregoing is not sufficient to cover the timely amortization of the proportional part of the loan, generate such additional revenues as shall be needed for this purpose. The guarantor shall cover, from the date of the contract through September 1982, any deficit which may arise as a result of the operation of said services.
- (e) The borrower and the guarantor shall take the necessary measures to ensure that the resources collected by FONATUR as a result of the sale or rental of the lands in the zone of the project or from any similar operations, will be kept as part of the assets of that trust fund for the purpose of devoting them exclusively to the purposes of said trust fund.
- (f) The borrower may utilize up to the equivalent of US\$2,100,000 of the resources of the loan for the financing of expenses incurred in the project before the date of the contract but after October 21, 1975, provided that requirements substantially similar to those set forth in this resolution and in the loan contract have been fulfilled.
- (g) In the acquisition of machinery, equipment and other materials for the project and the awarding of construction contracts, the system of public bids shall be followed in each case in which the value of such acquisitions or contracts exceed the equivalent of US\$50,000. The bidding procedure shall be consistent with the applicable laws of the United States of Mexico, provided that the specific bidding requirements shall be subject to conditions acceptable to the Bank, in accordance with its policies and the purposes of the loan.
- (h) Notwithstanding the provisions of paragraph (g) above, the Bank may authorize that, with regard to investments with funds from the local contribution related to the landscaping, archeological restoration and school construction subprojects, the procedure of public bids may be waived up to a total amount equivalent to US\$3,200,000.

- (i) The Bank shall establish such inspection procedures as it deems necessary to verify the satisfactory execution of the project, and the borrower and the guarantor shall extend all cooperation which is required for the most effective accomplishment of this purpose. The amount to be charged to the resources of the loan and credited to the general income accounts of the Bank as the Bank's commission for general inspection and supervision shall be established in the contract.

F. RECOMMENDATIONS

1. It is recommended that the following conditions be included in the loan contract and/or, as appropriate, in the guarantee contract, in addition to the conditions set forth in the proposed resolution:
  - (a) Prior to the call for bids and/or the commencement of any work included in the project, the borrower shall present to the Bank the corresponding plans, final budgets and specifications and specific bidding requirements.
  - (b) Prior to the first disbursement pertaining to execution of the archeological restoration subprojects, the borrower, through FONATUR, shall present to the Bank the agreement which it may sign with the entity that will be responsible for the execution of the works; likewise, when the case arises, the same conditions shall apply to any other executing entity.
  - (c) Following the completion of each of the works financed with the resources of the project and throughout the life of the loan contract, FONATUR, the guarantor and/or such entity or entities as FONATUR shall designate, shall maintain them in accordance with generally accepted engineering standards and in conformity with the provisions of Appendix C to this document.
  - (d) At least 6 months before the date estimated for completion of each subproject, the borrower, through FONATUR, shall submit to the Bank the contracts or agreements which shall be entered into with the organization that will be responsible for the administration and operation of the corresponding facilities, or other legal instruments having the same purposes.
  - (e) The borrower, through FONATUR, shall, over a period of 10 years beginning in 1977, present during the first three months of each calendar year an annual report on the operation and maintenance of the water supply and sewerage systems, which shall contain relevant data at least with respect to its organization, resources and results, including information concerning the maintenance of such systems, the number of users served, and the control of water quality.
  - (f) The Bank may consider as part of the local contribution to the project, investments, other than those provided for in subparagraph 8 (f) of the proposed resolution, made before the date of the contract but after October 21, 1975, up to a total amount equivalent to US\$4,900,000, provided that requirements substantially similar to those set forth in the resolution and in the loan contract have been fulfilled.



- (g) The loan contract shall specify the manner in which the financial statements of the borrower and of FONATUR are to be audited in accordance with such agreement as reached between the Bank and the borrower and with due regard to the provisions in paragraph 11 of the loan proposal.
- 2. Of the resources of the loan, the sum of US\$200,000 shall be set aside to cover the Bank's commission for general inspection and supervision.
- 3. An annex substantially similar in content to Appendix C to this document shall be included in the loan contract.

Appendix C

DESCRIPTION OF PROJECT

(Annex B to Loan Contract)

I. Purpose and Description of Project

The Project is a continuation of the comprehensive development of tourist infrastructure on the Island of Cancun and its area of influence, located within the Benito Juárez municipality, State of Quintana Roo.

The purpose of the Project is to consolidate infrastructure works and tourism and urban facilities, to which end the following package of works and activities will be carried out:

- (a) In the tourist zone: Widening of the Nichupté Bridge and the access roads to beaches and hotels; dredging, landfills, breakwaters and jetties for nautical sports; water supply, sewerage, energy generation and transmission and electric lighting for new hotel lots; arrangement and conditioning of parks and boulevards in public areas; public beaches, berths for boating, a marina, and restoration of archaeological sites.

- (b) In the urban zone: Water supply, sewerage, electrification, grading and paving for urbanization of 7 manzanas of land to be used for housing and shops for the local population, reconditioning of streets, avenues, parks and plazas, construction of a secondary school and enlargement of a tourism training school; improvement of the sports field and two zonal markets for supply of essential goods.

II. Cost of Project

The total cost of the Project is estimated at the equivalent of forty-nine million five hundred thousand dollars of the United States of America (US\$49,500,000) to be financed with the resources indicated in section III of this Appendix, invested approximately as shown on the table on page 2.

SECOND STAGE OF THE TOURIST INFRASTRUCTURE PROJECT (CANCUN II)

Cost by Investment Category and Sources and Uses of Funds

(In US\$ thousands)

	B A N K			M E X I C O			Grand Total
	Foreign Exchange <sup>a/</sup>	Local Currency	Total	Foreign Exchange	Local Currency	Total	
Construction							
1. Sanitary Engineering	2,910	1,660	4,570	-	3,890	3,890	8,460
2. Electric Power	-	-	-	1,278	3,010	4,288	4,288
3. Transportation	3,817	2,170	5,987	-	4,138	4,138	10,125
4. Turist attractions	475	995	1,470	-	1,297	1,297	2,767
5. Community Services	307	175	482	-	398	398	880
Subtotal	7,509	5,000	12,509	1,278	12,733	14,011	26,520
Contingencies	1,500	-	1,500	256	3,554	3,810	5,310
Escalation	3,191	-	3,191	566	4,058	4,624	7,815
Projects and Administration	-	-	-	200	3,000	3,200	3,200
Promotion	-	-	-	1,200	800	2,000	2,000
Community Development	-	-	-	80	640	720	720
Financial charges							
Interest	2,600	-	2,600	-	715	715	3,315
Credit commission	-	-	-	320	100	420	420
Inspection and supervision	200	-	200	-	-	-	200
TOTAL	<u>15,000</u>	<u>5,000</u>	<u>20,000</u>	<u>3,900</u>	<u>25,600</u>	<u>29,500</u>	<u>49,500</u>
Percentage	30.3	10.1	40.4	7.9	51.7	59.6	100.0

No use of foreign exchange for local costs.

### III. Sources and Uses of Funds

The Project will be financed as shown below:

(In US\$ thousands or equivalents)

	<u>Currency of Origin</u>		<u>Expenditures to be Financed</u>		<u>Total</u>	<u>%</u>
	<u>Foreign Exchange</u>	<u>Local Currency</u>	<u>Foreign Exchange</u>	<u>Local Currency</u>		
OC Loan	15,000	5,000	15,000	5,000	20,000	40.4
National Contribution	-	29,500	3,900	25,600	29,500	59.6
Total	<u>15,000</u>	<u>34,500</u>	<u>18,900</u>	<u>30,600</u>	<u>49,500</u>	<u>100.0</u>
Percentage	30.3	69.7	34.2	63.8	100.0	

### IV. Maintenance of Installations

- (a) The basic purpose of the maintenance will be to keep the infrastructure facilities, with all their component parts, in a condition reasonably similar to that in which they were at the time of completion of the corresponding works financed by the loan, during the entire life of the Loan Contract.
- (b) The annual plan for maintenance of the facilities financed in part with the loan and to be operated by FONATUR, shall be submitted for consideration of the Bank prior to November 30 preceding each fiscal year; they shall include, as a minimum, details on the organization responsible for maintenance, the personnel in charge of maintenance, and the number, type and condition of the equipment to be used for maintenance.
- (c) The maintenance plans shall state the funds available in the maintenance budget in effect as of November 30 of each year (with the exclusion of improvement operations) and shall include the amount to be assigned in the budget for the year for which the plans are being submitted.
- (d) The plans shall also indicate the systems of evaluation to demonstrate adequate maintenance of the facilities.

- (e) The Bank shall have the right to inspect the facilities periodically. If as a result of such inspections or of reports received by the Bank it is determined that the maintenance is below the agreed upon standards, the borrower and the guarantor shall take the necessary steps to correct the deficiencies in full.
- (f) In the case of facilities financed in part with the loan, whose operation has been entrusted to entities other than FONATUR, the agreement entered into by FONATUR for such purpose shall stipulate the obligation of the pertinent entity to carry out adequate maintenance of the facilities at least during the life of the loan. FONATUR shall provide the Bank with copies of such agreements.