

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BRAZIL**

**TOURISM DEVELOPMENT PROGRAM IN THE STATE OF SERGIPE  
(PRODETUR NACIONAL/SE)**

**(BR-L1256)**

**LOAN PROPOSAL**

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ELECTRONIC LINKS	
<b>REQUIRED</b>	
1.	Annual work plan (AWP) <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37691844">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37691844</a>
2.	Monitoring plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37533655">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37533655</a>
3.	Impact evaluation plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37327262">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37327262</a>
4.	Procurement plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37693759">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37693759</a>
5.	Environmental and Social Management Report (ESMR) <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37750250">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37750250</a>
<b>OPTIONAL</b>	
1.	Results framework—itemized <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37691892">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37691892</a>
2.	Program economic evaluation <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37664298">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37664298</a>
3.	Investment matrix and disbursement schedule <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37691808">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37691808</a>
4.	Institutional capacity assessment (ICAS) <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37623024">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37623024</a>
5.	Program operating manual <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37623565">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37623565</a>
6.	Financial analysis of the State <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37604450">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37604450</a>
7.	Safeguard Screening (SPF) and Project Classification Form (SSF) <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37692978">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37692978</a>

## ABBREVIATIONS

ACTs	Activities characteristic of tourism
AWP	Annual work plan
ESMP	Environmental and social management plan
FIRJAN	Federação das Indústrias do Estado de Rio de Janeiro [Rio de Janeiro State Industries Federation]
GCI-9	Ninth General Increase in the Resources of the Bank
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
IFDM	Índice FIRJAN de Desenvolvimento Municipal [FIRJAN Municipal Development Index]
IRR	Internal rate of return
LIBOR	London Interbank Offered Rate
MTUR	Ministry of Tourism of Brazil
PCU	PRODETUR coordination unit
PDITS	Plano de Desenvolvimento Integrado do Turismo Sustentável [Integrated Sustainable Tourism Development Plan]
PEDST	Plano Estratégico de Desenvolvimento do Turismo Sustentável [Strategic Sustainable Tourism Development Plan]
PRODETUR	Programa de Desenvolvimento do Turismo [Tourism Development Program]
PRODETUR/NE	Tourism Development Program in Northeastern Brazil
PWG	Program work group
R\$	Brazilian reais
SETUR	Secretaria de Estado de Turismo [State Tourism Department]
SGIP	Sistema de Gestión Integral del Programa [Integrated program management system]

## PROJECT SUMMARY

### BRAZIL TOURISM DEVELOPMENT PROGRAM IN THE STATE OF SERGIPE (PRODETUR NACIONAL/SE) (BR-L1256)

Financial Terms and Conditions			
<b>Borrower:</b> State of Sergipe <b>Guarantor:</b> Federative Republic of Brazil <b>Executing agency:</b> State of Sergipe, through the State Tourism Department (SETUR)		<b>Flexible Financing Facility*</b>	
		<b>Amortization period:</b>	25.0 years
		<b>Original weighted average life:</b>	14.98 years
		<b>Disbursement period:</b>	5.0 years
		<b>Grace period:</b>	5.5 years
<b>Source</b>	<b>Amount</b>	<b>Inspection and supervision fee:</b>	**
<b>IDB (Ordinary Capital)</b>	US\$60.0 million	<b>Interest rate:</b>	LIBOR-based
<b>Local</b>	US\$40.0 million	<b>Credit fee:</b>	**
<b>Total</b>	US\$100.0 million	<b>Currency of approval:</b>	U.S. dollars from the Bank's Ordinary Capital.
Project at a Glance			
<p><b>Program objective:</b> The program's general objective is to increase household income and formal employment in the state of Sergipe by promoting tourism activity. The specific objective is to elicit higher levels of tourist spending in the Costa dos Coqueiros and Velho Chico hubs, through investments targeting sun-and-sand tourism, ecotourism, and cultural tourism. To achieve this objective, the program is divided into five components: (i) socially inclusive tourist product strategy; (ii) tourism marketing and promotion strategy; (iii) institutional strengthening; (iv) support connectivity, infrastructure, and basic services; and (v) environmental management.</p> <p><b>Special contractual conditions precedent to the first disbursement:</b> The borrower will provide evidence of the following: (i) completion of the shortlist phase in selecting the management firm to support the PRODETUR coordination unit (PCU) (paragraph 3.2); and (ii) Bank approval of the program operating manual, including an environmental and social management plan (ESMP) (paragraph 3.5).</p> <p><b>Execution conditions:</b> The borrower will provide evidence of the following: (i) implementation of the integrated program management system (paragraph 2.5), and creation of the special bidding committee (paragraph 2.5), prior to the first works tender and pursuant to the terms previously agreed on with the Bank; (ii) entry into force of the cooperation agreement between SETUR and the participating local or sector administration, under the terms agreed on previously with the Bank, before investment/works in its jurisdiction are put to tender (paragraph 3.3); and (iii) contracting of the works supervision firm before starting works execution (paragraph 3.2).</p> <p><b>Special condition:</b> The deadline for the material start of the works will be four years (paragraph 2.1).</p> <p><b>Exceptions to Bank policies:</b> None.</p>			
<b>Project consistent with country strategy:</b> <div style="float: right; text-align: right;">             Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> </div>			
<b>Project qualifies as:</b> <div style="float: right; text-align: right;">             SEQ <input checked="" type="checkbox"/> PTI <input checked="" type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/> </div>			

\* Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, and currency and interest rate conversions, subject in all cases to the final amortization date and the original weighted average life. When considering such requests, the Bank will take market conditions into account, along with operational and risk management considerations.

\*\* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problems addressed, and rationale

- 1.1 Sergipe is Brazil's ninth poorest state: 47% of its population lives in poverty, and its extreme poverty rate is almost twice the national average (15% versus 8.5%).<sup>1</sup> Its current economic production does not meet all of the population's employment and income needs (the state's unemployment rate is 11.5%, far above the national average of 8.2%, and average household per capita income is 1.4 times less than the national average), concentrated in the gas and oil industry and electric power generation (44% of the state's industrial GDP).<sup>2</sup>
- 1.2 The [Sergipe State Development Plan](#) proposes strategic investment in tourism as an effective way of diversifying the economy and increasing income through employment. Sergipe is one of the states with the highest proportion of activities characteristic of tourism (ACTs) in its formal economy: 4.1% compared to a national average of 2.8%.<sup>3</sup> Moreover, the sector has shown a high capacity to create new jobs: formal jobs in ACTs grew at an average rate of 4.8% per year between 2002 and 2009, outpacing the average expansion of formal employment in the state; and the lodging and food subsector has risen to the top of the services sector by accounting for 12.8% of formal jobs created in 2011.<sup>4</sup> In that year Law 7.116 created the State Tourism Department (SETUR), thereby clearly demonstrating the state's priority and long-term backing to the tourism sector.
- 1.3 Tourism in Sergipe is an incipient but vigorously developing activity. Whereas in 2005, the state received 534,463 tourists, by 2012 the figure had risen to 948,435.<sup>5</sup> The private sector has accompanied this boom in demand, with the supply of hotel beds growing by a cumulative 40% in the same period. The lodging and food subsector, which accounts for some ACTs but not all,<sup>6</sup> has generated 262 million reais (R\$) per year for the state economy, representing 1.4% of its GDP.<sup>7</sup> The state has significant tourist potential for further development of the sector, including extensive maritime coastal and river zones boasting fine landscapes, pristine nature, and a culture that blends indigenous, European, and African heritages. These locations have the highest growth figures: over the last four years, the San Francisco River and the beaches in northern and southern Sergipe have had

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<sup>1</sup> Brazilian Institute of Geography and Statistics (IBGE). National census, 2010.

<sup>2</sup> Instituto de Investigação Econômica Aplicada [Institute of Applied Economic Research] (IPEA). [Situação social nos estados – Sergipe](#), 2012 [Social situation in the states – Sergipe, 2012].

<sup>3</sup> IPEA. [Ocupação do Setor de Turismo no Brasil: Análise da Ocupação Nas Principais ACTs Nos Estados, Regiões e Brasil](#), 2011 [Employment in the tourism sector in Brazil: analysis of ACTs in the states, regions, and Brazil 2011].

<sup>4</sup> Sergipe Department of Labor and Employment, 2012.

<sup>5</sup> SETUR, 2013. Only covers tourists lodged in the hotel network.

<sup>6</sup> Includes: Lodging, food, travel agencies, tourism transport, transport hire and auxiliary transport, and cultural and leisure activities.

<sup>7</sup> IBGE. Brazil regional accounts, 2008.

cumulative increases in tourist flows ranging from 18% to 36% per year; and they are the highest-rated for their level of attraction or interest (65% of tourists visiting those sites rate them as very good or excellent).<sup>8</sup>

- 1.4 Nonetheless, a problem for the sector is that demand is concentrated in segments that spend little in the state—dominated by tourists who: (i) stay with relatives and friends (65% of the total) and contribute only 32% of total revenue (versus 64% of revenue generated by tourists who stay in the hotel network); and (ii) originate in the intra-regional market<sup>9</sup> (52% of the total), which means that the sector depends on a poor source region with lower spending capacity (just 8% of intra-regional tourists or residents in the northeast have a monthly income above 20 times the minimum wage, versus 36% among tourists from outside the region).<sup>10</sup> An analysis by main travel motive shows that leisure tourists spend far more per capita than business tourists (R\$1,025 compared to R\$743) or tourists visiting relatives and friends (R\$229); and they have a higher output multiplier (1.65 versus 1.63 and 1.59, respectively). The lack of specialized and systematic information on the determinants of demand has thus far made it impossible to attract segments with a greater propensity to spend and contribute to the economy, particularly among leisure tourists who use hotel accommodations and come from outside the Northeast. This development model clearly shows that the state's tourism potential is underexploited.
- 1.5 To address this challenge, the program targets two hubs prioritized in the [Sergipe Strategic Sustainable Tourism Development Plan](#)<sup>11</sup> (PEDST), due to their high tourism potential, namely: Costa dos Coqueiros (which includes the state's maritime coastline) and Velho Chico (along the San Francisco River coastline), for sun-and-sand tourism, ecotourism, and cultural tourism products targeting the leisure tour market from outside the region, lodging at the hotel network. Based on the PEDST, through a participatory process, with technical support from the Ministry of Tourism of Brazil (MTUR) and validation of the Sergipe State Tourism Forum (FORTUR), SETUR has prepared an [Integrated Sustainable Tourism Development Plan](#) (PDITS) for [each hub](#). To promote their tourism development, both the state and these two hubs need to overcome a number of market failures in five key areas of tourism competitiveness:
  - a. **Scant development of tourism products.** Brazilian leisure tourists prefer sun-and-sand destinations, followed by ecotourism and cultural tourism, in that order. Given this tendency, although the Northeast region currently serves 37% of the domestic Brazilian market, it is estimated it could capture 55% of

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<sup>8</sup> SETUR. Statistical bulletin and surveys of tourism demand, 2012.

<sup>9</sup> Refers to the states of the Northeast region to which Sergipe belongs: Alagoas, Bahia, Ceará, Maranhão, Paraíba, Piauí, Pernambuco, and Rio Grande do Norte.

<sup>10</sup> SETUR, Tourism demand surveys, 2007.

<sup>11</sup> Prepared in keeping with the National Tourism Plan of Brazil. The state's five tourism hubs are: Costa dos Coqueiros, Velho Chico, Sertão das Águas, Serras Sergipanas, and Dos Tabuleiros.

potential customers.<sup>12</sup> However, in this context, the current range of services offered by the state has to date been limited to conventional sun-and-sand products in the urban environment of the state capital Aracajú, which makes it hard for Sergipe to arouse interest among leisure tourists and gain a reputation as a differentiated attraction in the Brazilian Northeast. Although efforts have been made, the main public tourism attractions, such as the San Francisco River and the beaches on the northern and southern coasts which are outside the capital and attract the greatest demand (paragraph 1.3), remain undervalued, and have management capacities that prevent greater tourism use. A [study](#) found that for Sergipe's beaches to be able to attract tourists and contribute to the local economy, instead of serving merely as a recreational alternative for the local population, their value needs to be recognized. In addition, the private tourism sector faces: (i) constraints in providing services to match the expectations of potential customers (up to 50% of tourists from outside the region mention the need for better service quality); (ii) lack of organization (just 25% of companies are members of associations); and (iii) a high level of [informality](#) (70%). At the same time, the low level of tourism training, particularly among the poor, prevents them from participating as skilled labor in the tourism value chain. All this has resulted in a very low level of supply, which explains why the average stay by leisure tourists in the state's hotel network has remained flat at around four days.

- b. **Inefficient marketing.** Sergipe is not widely known as a leisure destination (30% of tourists arrive for work reasons, and 53% of pleasure tourists decided to make their trip following comments by friends or relatives). The state does not have an up-to-date marketing plan that responds to new market trends and leisure products; nor does it have mechanisms to evaluate the efficacy and efficiency of the promotion and marketing channels used to attract tourists (just 14% of tourists who visit Sergipe for pleasure or leisure are influenced by advertising campaigns). This has perpetuated a consumption pattern that relies on neighboring outbound markets and makes it hard to open up to new higher-spending segments of demand.
- c. **Weak tourism management.** Partly because it was created only recently, SETUR has deficiencies in the generation, analysis, and dissemination of demand, supply, and socioeconomic data related to tourism; and it has insufficient disaggregated data for the hubs' leisure tourism products and the different territories. Moreover, the municípios have shortcomings in managing the implications of a growing flow of tourists, owing to a lack of: (i) regulatory instruments that organize tourism development (such as urban development master plans, land use laws, and works and environment codes); (ii) tourist management plans (even Aracajú's plan is out of date); and (iii) capacities for the management and inspection of tourist activities. These weaknesses are reflected in inadequate collaboration between the different

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<sup>12</sup> MTUR. Survey of the Brazilian tourist's consumption habits, 2009.



sector stakeholders (public, private, academic, and civil) in the formal mechanisms that do exist: the Sergipe State Tourism Forum and the Regional Tourism Boards of the hubs, which makes it harder to target investments on common objectives and benefits.

- d. **Inadequate connectivity.** Most tourists travel to Sergipe by air (62% of domestic leisure tourists, versus an average of 33% who fly to their destination in Brazil).<sup>13</sup> This mode of transportation is much more frequent among tourists arriving from outside the region (up to 91% of cases, compared to 23% of tourists arriving from the Northeast). Nonetheless, the state's only airport cannot handle that volume of arrivals efficiently: (i) the tourist flow has more than doubled in the last five years, exceeding the capacity of one million passengers per year for which the airport was initially designed; and (ii) just 36% of tourists consider it to be in good condition.<sup>14</sup> Once in Sergipe, just one third of tourists rate the quality of the roads that enable them to reach the hubs' main tourist attractions as good.
- e. **Environmental degradation.** An [environmental assessment](#) performed during program preparation found that the maritime and river coastlines, which form the basis of the tourist attraction in both hubs, are at risk of environmental degradation. In fact, 21% of the coastline already shows some degree of erosion, which causes ecological losses as well as physical damage to tourist infrastructure.<sup>15</sup> This situation is caused by the growing human pressure on the coast owing to: (i) failings in land organization and management (although economic-ecological zoning is being implemented along with a coastal modeling system,<sup>16</sup> there is no state policy for coastal management); (ii) inadequate management of visitors to fragile ecosystems and protected areas, which lack studies on minimum limits of acceptable change, and have no management and public use plans; and (iii) deficiencies in solid and liquid waste management (just 59% of visitors consider the public hygiene of tourist destinations to be good).<sup>17</sup> On this latter point, wastewater [sanitation](#) is precarious in some tourist zones, where it is only adequate for 56% of the population. In addition, although all municípios have some type of solid waste management in place, they do not participate in intermunicipal consortia to make this task more effective and efficient. Although the state is preparing Integrated Solid Waste Management Plans in tourist areas, it does not yet have the resources needed to implement them.<sup>18</sup>

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<sup>13</sup> MTUR. Survey of the Brazilian tourist's consumption habits, 2009.

<sup>14</sup> Brazilian airport infrastructure company (INFRAERO) and SETUR, 2011.

<sup>15</sup> Federal University of Bahia. [Diagnostic Study of Coastal Erosion in the State of Sergipe, 2011](#).

<sup>16</sup> Set of methodologies and numerical models for studying coastal processes and quantifying variations suffered by the coastline as a result of natural events or human action.

<sup>17</sup> SETUR. Surveys of tourist demand, 2012.

<sup>18</sup> IBGE. Social indicators for the State of Sergipe, 2012.

- 1.6 **Experience in the sector and lessons learned.** The Bank has been supporting tourism as an engine of development in the northeastern region of Brazil for some time. The first operation was PRODETUR/NE I (loan 841/OC-BR) in 1994, which cost a total of US\$700 million (US\$400 million financed by the Bank) and aimed at increasing employment, per capita income, and tax revenue from tourism. An [ex post evaluation](#), performed by the Tribunal de Contas da União [Federal Audit Department], concluded that the operation helped to attract US\$4 billion in private investment, create 1 million jobs, and increase the number of tourist visits from 6 million to 12 million between 1994 and 2000. Based on this experience, the Bank approved PRODETUR/NE II (loan 1392/OC-BR) in 2002, costing a total of US\$400 million (US\$240 million financed by the Bank), to improve the population's quality of life by increasing employment and tax revenue from tourism and upgrading environmental quality. This second program sought to consolidate the environmental and institutional sustainability of the investments made in the first phase. The operation disbursed the loan proceeds in full, achieved its development objectives, and performed [satisfactorily](#). In 2009, the Bank approved the Support for the National Tourism Development Program (PRODETUR Nacional) (loan 2229/OC-BR), with a total cost of US\$25 million (60% from the IDB), to strengthen MTUR's capacity to support tourism planning and investment in the states, under a shared national vision. Sergipe is one of the beneficiaries of that operation, and is the fifth state (following Ceará, Rio de Janeiro, Pernambuco, and Bahia) to present this tourism development program (PRODETUR) under the common guidelines generated in the national operation.
- 1.7 Under PRODETUR/NE I, Sergipe made investments amounting to US\$67 million (64% from the Bank) in the Costa dos Coqueiros hub, with the following results: improvements in the accessibility and sanitation of the capital and its surrounding areas, a revival of traditional markets and the historical center of Aracajú, and strengthening of state tourism management. The Bank is currently supporting Sergipe through the project to promote tourism and environmental sustainability in the São Francisco River area in the states of Alagoas and Sergipe (BR-M1074). This has received a US\$1.0 million grant from the Multilateral Investment Fund (MIF) for which the Velho Chico hub is one of the beneficiaries. The state, through SETUR, has coordinated the activities of the new program with those two operations, such that they are complementary and take advantage of synergies. It is particularly noteworthy that the new program: (i) will strengthen the progress made in the Costa dos Coqueiros hub under PRODETUR/NE-1 and will extend the benefits of tourism to the Velho Chico hub, in terms of providing tourism infrastructure and social, environmental, and institutional sustainability; and (ii) will complete, with operation BR-M1074, the priorities established in the PDITS for the Velho Chico hub on tourism enterprise development.
- 1.8 Based on the [evaluations undertaken](#), Table I-1 shows the lessons learned and how they have been built into the design of this operation.

**Table I-1. Integration of lessons learned ([Sector Note on Tourism in Brazil](#))**

<b>Main lesson learned</b>	<b>How reflected in the program design</b>
To avoid having a low impact, programs should be <b>targeted</b> on specific tourism modalities and destinations and be <b>shared</b> by the stakeholders.	It targets sun-and-sand tourism, ecotourism, and cultural tourism in two of the five tourism hubs in Sergipe, based on the PEDST and the Integrated Sustainable Tourism Development Plan (PDITS) prepared jointly by the public, private, academic, and civil society sectors (paragraph 1.5).
The investments need <b>planning and scaling</b> to avoid rapid, haphazard growth of tourism.	It is based on prior planning by the PEDST and the PDITS of the beneficiary hubs and incorporates a plan and schedule of investments suitable for the five years of implementation.
Tourism can be an effective tool for <b>social inclusion</b> .	The program incorporates actions to increase participation by the disadvantaged population (paragraph 1.12); an operating manual with criteria for selecting beneficiaries based on their vulnerability level (paragraph 3.5); and impact indicators by poverty, gender, and ethnic origin (paragraph 3.6).
There should be a real <b>environmental commitment</b> , both at the planning level and in terms of investment, that ensures the conservation of natural resources.	The program incorporates the conclusions of a socioenvironmental evaluation (paragraph 2.4); and it will be implemented on the basis of an environmental and social management plan (paragraph 3.5) and an environmental component (paragraph 1.16), including socioenvironmental impact studies, supervision of construction firms, and socioenvironmental audits.
Given the crosscutting nature of the sector, <b>various entities need to be involved</b> , so clear and expeditious schemes for their participation are required.	The program is based on plans agreed on with the participating entities. To expedite execution, it includes agreements with these entities (paragraph 3.3); a coordination group (paragraph 3.4); strengthening of the entities (paragraph 1.14); an operating manual indicating each entity's responsibilities (paragraph 3.5); and a program communication and participation plan (paragraph 1.16).
The <b>maintenance and tourism use of the works</b> requires adequate planning and ownership by stakeholders.	The program includes: an agreement with the entity responsible for operation and maintenance (paragraph 3.3); design of tourism uses and the works management plan (paragraph 3.5); and strengthening of public and/or private managers (paragraphs 1.12 and 1.14).
To make the investments sustainable, <b>a balance needs to be struck between investments in works and strengthening governance</b> .	The program includes an institutional strengthening component (paragraph 1.14) aimed at strengthening knowledge and information available on the sector; and articulation between the state and the municípios for planning and managing tourism.

- 1.9 **Program design.** The program arises from the need to increase the incomes of Sergipe's households and thus reduce the existing territorial and social imbalances. For that purpose, the State has identified the tourism sector as a viable alternative to help diversify its economy, raise income levels in the less developed municípios, and promote social inclusion, through the capacity it has shown to create jobs (paragraph 1.2). [Empirical evidence](#) of the effectiveness of actions in the tourism sector in Brazil shows that the country obtains a welfare gain of US\$0.45 for every additional dollar spent by tourists, and that this gain benefits low-income households in particular, thus reducing income inequalities. These results have been corroborated in Sergipe by [analyses performed during program preparation](#): leisure tourism currently has a multiplier effect on state GDP of 1.65 (paragraph 1.4), and the expansion of tourism activity caused by the program will increase the number of

formal jobs in ACTs by 34%, and increase incomes among the poorest families by 37% more than those of wealthier families (paragraph 2.3). To take advantage of tourism's capacity to generate economic development and social inclusion, the program's conceptual design is three-pronged: (i) it intervenes in areas with significant pockets of poverty (the beneficiary municípios include the state's poorest, where on average 55% of the population lives below the poverty line); (ii) the program's five components incorporate strategies and activities to increase participation by low-income local populations in the tourism value chain (those strategies and activities were identified from the conclusions of a socioenvironmental assessment made of the program's intervention areas (paragraph 2.4), and recommendations based on international evidence to maximize social inclusion in tourism);<sup>19</sup> and (iii) it exploits the potential in these municípios for sun-and-sand tourism, ecotourism, and cultural tourism (based on information on demand and tourism planning undertaken by MTUR and SETUR), since international empirical evidence corroborates the view that the [sun-and-sand tourism](#), [cultural tourism](#), and ecotourism can make an effective and valuable contribution to the local economy, by expanding income and jobs on the back of higher tourist spending, provided the activities are developed on a sustainable basis.

- 1.10 **Alignment with the country strategy and GCI-9.** The program is aligned with the IDB Country Strategy with Brazil 2012-2014 (document GN-2662-1), since it will contribute to its objectives of promoting development through the private sector, improving tourism competitiveness, and promoting social and territorial equity, by helping to achieve the goals of increasing both the level of tourist spending and the number of formal jobs in ACTs. The program will also contribute to the lending targets set in the Ninth General Increase in the Resources of the Bank (GCI-9) (document AB-2764): (i) poverty reduction and equity enhancement, by targeting the intervention on municípios with 55% of their population living in poverty and a development index below the national average;<sup>20</sup> and (ii) support for initiatives on climate change, sustainable energy, and environmental sustainability, by promoting sustainable tourism practices that will conserve coastal resources and strengthen environmental management in the beneficiary municípios and protected areas. The program will contribute through sector-level social policy priorities that promote equality and productivity; protection of the environment, response to climate change, and the promotion of renewable energy and food security.

## **B. Objectives, components, and costs**

- 1.11 **Objectives.** The program's general objective is to help increase household income and formal employment in the state of Sergipe, by promoting tourism activity. The

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<sup>19</sup> United Nations [Sustainable Tourism-Eliminating Poverty](#); International Institute for Environment and Development, [Sustainable Tourism and Poverty Elimination Study](#), and other [experiences](#).

<sup>20</sup> The Municipal Development Index (IFDM), published by the Rio de Janeiro State Industries Federation (FIRJAN), measures the population's development level in three areas: employment and income, education, and health. The IFDM in 2010 was: Brazil (0.7899), Sergipe (0.692), the Costa dos Coqueiros hub (0.6409), and the Velho Chico hub (0.5869).

specific objective is to elicit higher tourist spending in the Costa dos Coqueiros and Velho Chico hubs, through investments targeting the sun-and-sand, ecotourism, and cultural tourism segments. The beneficiaries will be 1,807 micro, small, and medium-sized enterprises (MSMEs) and 8,423 persons employed in ACTs in [30 municípios](#) where 55% of the population is living in poverty.<sup>21</sup> To achieve its objective, and based on the challenges identified (paragraph 1.5), the program will finance works, goods, and services organized in five components:

- 1.12 **Component 1. Socially inclusive tourist product strategy (US\$36.23 million).** This component aims to expand the portfolio of tourist products, with success being measured by the extent to which leisure tourists stay longer in the hotel network. It includes investments in: (i) analysis of the tourism value chain targeting social inclusion; (ii) a diagnostic study and plan of action to increase formality in the sector; (iii) technical assistance and training for firms and human resources to promote service quality, environmental management, and social responsibility; (iv) tourist signposting and interpretation; (v) recovery of traditional markets and promotion of quality handicraft, targeting tourist demand; (vi) development of historical-cultural circuits, modernization of museums, and the construction of the Cangaco interpretation center; (vii) tourism and environmental upgrading of beaches on the protected areas' southern coastline (parking, demarcation/protection of dunes, footpaths, bicycle lanes, scenic overlooks, logistics centers, rescue and first aid posts, restrooms, etc.); (viii) tourism and environmental services on a scenic route in the northern coast protected area (interpretation centers, animal crossings, rest areas, scenic overlooks, etc.); and (ix) design and implementation of various tourism routes based on the hubs' PDITs.
- 1.13 **Component 2. Tourism marketing and promotion strategy (US\$6.22 million).** This component aims to improve Sergipe's tourism positioning as a leisure destination, measured through the proportion of tourists who travel to the state in response to advertising. The component will finance: (i) updating of the state strategic tourism marketing plan; (ii) implementation of the first three years of that plan; and (iii) design and application of a system for monitoring and evaluating the state's public investments in tourism promotion.
- 1.14 **Component 3. Institutional strengthening (US\$6.51 million).** This component aims to strengthen tourism planning and management capacities on a coordinated basis among stakeholders. Its success will be measured through the increase in participation by the municípios in the hubs' state and regional tourism boards. It includes investments in: (i) development of the integrated tourism information and statistics system; and (ii) strengthening of municipal, state, and regional tourism entities in territorial and urban management; tourism control and inspection; and cooperation and coordination with other stakeholders.
- 1.15 **Component 4. Support connectivity, infrastructure, and basic services (US\$30.44 million).** This component aims to improve tourism connectivity,

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<sup>21</sup> IBGE. Central Enterprise Cadaster and National Census, 2010.

measured through tourists' satisfaction with the infrastructure for access to the state and its attractions. It includes investments in: (i) studies and works complementary to the expansion of the Aracajú airport, to facilitate tourist arrivals in the state; and (ii) studies and works for the adaptation and improvement of infrastructure to access tourist attractions and state highways ensuring internal tourism connectivity of the hubs.

- 1.16 **Component 5. Environmental management (US\$14.40 million).** This component aims to improve the management of the coastal area where tourism activity takes place. Its success will be measured in terms of the reduction in the proportion of the tourist coastline with erosion problems of human origin. It includes investments in: (i) preparation of the state coastal management policy and integrated coastal management plans of tourism municípios; (ii) technical assistance and training for environmental control and inspection of infrastructure works on the coast; (iii) ecological restoration of degraded areas in coastal estuaries that are important for tourism; (iv) support for the implementation of comprehensive solid waste management plans and wastewater sanitation systems in coastal municípios that are important for tourism; (v) protection and management of protected areas with tourism uses; (vi) studies of the limits of acceptable change and implementation of environmental monitoring systems in fragile tourism areas; (vii) the operation's environmental management system, including, among other things, a program communication and participation plan targeting the vulnerable population, and a program of environmental awareness-raising and education for tourists, the population, firms, and institutions in the sector; and (viii) other actions to prevent and mitigate potential indirect impacts caused by the growth of tourism activity.
- 1.17 **Program outcome.** The program has a results framework agreed on with the borrower (Annex II), which contains indicators of the program's impact, outcomes, and outputs, together with the corresponding baselines and targets. In keeping with the country strategy (paragraph 1.10), the main impacts will be growth in tourist spending, formal employment in ACTs, and household income in Sergipe.

## II. FINANCIAL STRUCTURE AND RISKS

### A. Financing instrument

- 2.1 The program is designed as an investment loan, under the Flexible Financing Facility (document FN-655-1) and the multiple works modality,<sup>22</sup> and will cost a total of US\$100 million. The Bank will finance US\$60 million out of its Ordinary Capital, while the local counterpart of US\$40 million will be provided by the State

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<sup>22</sup> SETUR has prepared: (i) terms of reference for technical assistance operations in the first two years of implementation; and (ii) designs of the main works, including: leveling to expand the airport runway (US\$9.5 million), and sea walls and tourist piers on the coast (US\$5.9 million), and highways to access tourist attractions (US\$17.2 million). This is a representative sample of the type of investments to be financed, representing more than 30% of the total program cost.



of Sergipe. The deadline for the physical start of program works will be four years (see [investment plan](#)).

**Table II-1. Program cost and financing (US\$ million)**

Investment category	IDB	Local	Total	%
<b>I. Direct costs</b>	<b>53.8</b>	<b>40.0</b>	<b>93.8</b>	<b>93.8</b>
Component 1 Socially inclusive tourist product strategy	27.62	8.61	36.23	36.2
Component 2. Tourism marketing and promotion strategy	6.22	0.00	6.22	6.2
Component 3. Institutional strengthening	5.56	0.95	6.51	6.5
Component 4. Support connectivity, infrastructure, and basic services	0.00	30.44	30.44	30.5
Component 5. Environmental management	14.40	0.00	14.40	14.4
<b>II. Indirect costs*</b> (administration, monitoring/evaluation, audits)	<b>6.20</b>	<b>0.00</b>	<b>6.20</b>	<b>6.2</b>
<b>Total</b>	<b>60.00</b>	<b>40.00</b>	<b>100.00</b>	<b>100</b>
<b>Percentage</b>	<b>60%</b>	<b>40%</b>	<b>100%</b>	

\* The finance charges, interest, and credit fee will be paid by the borrower outside the program.

- 2.2 Program disbursements will be released as funding advances over a five-year period, according to the following preliminary financial plan:

**Table II-2. [Disbursement schedule](#)**

Source: IDB (OC)	Year 1	Year 2	Year 3	Year 4	Year 5	Total	%
US\$ millions	3.36	8.80	15.89	18.65	13.30	60.00	60
%	5.5	14.7	26.5	31.1	22.2	-	100

## **B. Economic viability**

- 2.3 To estimate the program's direct, indirect, and induced socioeconomic impacts, a social accounting matrix was developed and calibrated for the local economy, and a number of simulations were performed to analyze the extent to which tourist spending alters selected socioeconomic indicators (GDP, formal employment, family income, and distributive effects) in the state as a whole, as an approximation to effects in the targeted hubs. The [analysis](#) shows that the expansion of tourism activity, measured through the increase in tourist spending, has a clear positive impact on Sergipe's economy; and it confirms that, even under a conservative scenario, the program will generate an incremental state GDP flow equivalent to R\$230 million (at 2013 prices, discounted at 12% per year) and an internal rate of return (IRR) of 33%. In addition, the program's labor market impact was estimated (3,609 new jobs) along with its distributive effects (income among the poorest families grows by 37% more than that of wealthier families). Lastly, the minimum increase in total spending by leisure tourists needed for the program to be viable was calculated as a cumulative 4.1% until 2028 (analysis horizon), which is well below the level projected in the various analysis scenarios. The investment eligibility criteria defined in the program's operating manual (paragraph 3.5) require the individual works planned to generate an IRR above 12%.

**C. Risks and other issues**

- 2.4 **Socioenvironmental risks.** This is classified as a category B operation under the Bank's Environment and Safeguards Compliance Policy (Operational Manual OP-703). Based on a socioenvironmental evaluation of the hubs, the [Environmental and Social Management Report](#) (ESMR) was prepared, with an environmental and social management plan (ESMP), which is integrated with the five components and their costs, thereby assuring the resources to make the operation socially and environmentally sustainable. Its actions include: (i) a communication and participation strategy targeting the vulnerable population; (ii) environmental education and application of sustainable practices in the tourism sector; (iii) inclusion of poor and female entrepreneurs in the productive activity and benefits of tourism; (iv) improvement of the management of coastlines and natural areas, particularly protected areas; and (v) contracting of socioenvironmental specialists to monitor the ESMP (paragraph 3.1). The latter will form part of the operating manual (paragraph 3.5).
- 2.5 **Fiduciary risks.** An evaluation was made of the [capacity of SETUR](#) to program, organize, execute, and control the operation, based on the Institutional Capacity Assessment System (ICAS) methodology. The results show satisfactory performance and a low risk rating. The evaluation also confirms that the risks identified can be mitigated through an institutional strengthening plan that includes the following: (i) implementation of a computerized integrated program management system (SGIP), with a financial and accounting management module that satisfies the Bank's accountability requirements; (ii) creation of a Special Bidding Committee in SETUR during the implementation period; (iii) training for staff in the PRODETUR coordination unit (PCU) on the accounting, administrative, and financial procedures required by the Bank; (iv) hiring of consulting firms to provide management support to the PCU, together with works supervision and external audit services (paragraph 3.2); and (v) creation of a mechanism for coordination with the participating entities (paragraph 3.4). These actions have been included in the activities and budget of the institutional strengthening component, and in program administration. A special execution condition requires evidence to be presented that the SGIP has been implemented and the Special Bidding Committee created, prior to the first works tender and under the terms previously agreed on with the Bank.
- 2.6 **Other risks.** The program has a [Risk Matrix](#), based on the project risk management (PRM) methodology, agreed on with the borrower, which includes mitigation measures, monitoring indicators, and identification of those responsible for monitoring and implementation. The main risks are the deterioration of natural heritage in the two hubs, and difficulties in terms of coordination and response capacity that could arise with the participating entities and beneficiaries. The mitigation actions (including upgrading of coastal management, institutional strengthening, business support, and actions furthering social inclusion) are built into the design and cost of the operation.



- 2.7 **Procurements.** All procurements for program goods, works, and services will abide by the Bank's procurement policies set forth in documents GN-2349-9 and GN-2350-9, and will be undertaken pursuant to the program's fiduciary agreements and requirements (Annex III), agreed on with SETUR, which includes a [Procurement Plan](#).
- 2.8 **Audits.** SETUR will draw on the loan proceeds to hire an independent firm of external auditors to perform the annual external audit of the program's financial statements. The external audit reports will be filed with the Bank annually no later than four months after the end of the fiscal year in question.
- 2.9 **Financial situation of the state.** The [financial analysis](#) performed on the state of Sergipe reveals substantial margin to take on the financial obligations arising from this program, while satisfying Brazil's fiscal responsibility thresholds (Complementary Law 101 of 4 May 2000).
- 2.10 **Retroactive financing and recognition of expenditures.** In accordance with Operational Policy OP-507 (document GN-2259-1), the Bank may allow up to US\$130,000 in eligible expenditures to be retroactively financed against the loan proceeds and up to US\$8 million to be recognized against the local contribution when incurred by the borrower before the loan was approved by the Bank's Board of Executive Directors, for (i) professional and business training in tourism (retroactive financing); (ii) final designs for tourist signposting; (iii) works for the adaptation and improvement of infrastructure to access tourist attractions; and (iv) final designs and complementary works to facilitate the expansion of the Aracajú airport, provided the borrower shows that the respective works are completed in accordance with current environmental legislation, and have fulfilled requirements analogous to those set forth in the loan contract. Such expenses will have been incurred starting on the date of approval of the project profile (24 August 2012). Under no circumstances will expenses be recognized if they were incurred more than 18 months before the date of loan approval.

### III. IMPLEMENTATION AND MANAGEMENT

#### A. Program implementation and management

- 3.1 The borrower will be the State of Sergipe, with the Federative Republic of Brazil guaranteeing the borrower's financial obligations under the loan contract. The executing agency will be the State Tourism Department (SETUR), which will have full responsibility for program management, supervision, and evaluation. To fulfill this responsibility, the executing agency will be supported by a PRODETUR coordination unit (PCU), operating and created by State Law 7368 in 2011. In line with the results of the institutional capacity assessment (paragraph 2.4), the state has amended the aforementioned law to specify the PCU's functions, the structure of its posts and the responsibilities of its staff, and to define the responsibilities of the operational areas of SETUR with the PCU in executing this operation. The PCU reports directly to the State Tourism Minister and consists of a multidisciplinary

- team comprised of a general coordinator and three other coordinators: administrative-financial, infrastructure technical, and operational, supported by seven specialists in tourism, engineering, institutional development, budget and financial execution, procurement and contracts, socioenvironmental management, and monitoring and evaluation.
- 3.2 A [management support firm](#) will assist the PCU with technical, administrative, financial, and bidding procedures, and will assist with program supervision. For the technical and environmental supervision of the program's civil works, the PCU will hire a specialized supervision firm. **As a condition precedent to the first disbursement, evidence will be provided of having completed the shortlist for selecting the PCU management support firm.** Evidence that the works supervision firm has been contracted is a special execution condition prior to the start of works execution.
- 3.3 In the case of program investments that involve the jurisdiction of a sector administration other than SETUR (such as the Culture Department; the Infrastructure Department; the Environment and Water Resources Department; and the Department for Social Inclusion, Assistance, and Development), or a local administration such as a município, the executing agency will be supported by the entity in question, under a formal cooperation agreement. No resource transfers are envisaged. The agreement will specify the execution obligations of the parties, including the modalities and conditions for transferring goods and services procured by SETUR to the sector or local administrations in the specific action in question. These obligations will include: (i) having legal authority to intervene on the land areas where the works will be executed; (ii) collaborating in obtaining authorizations and permits, and in completing the necessary procedures; (iii) validating terms of reference and expressing no objection to the contracting of goods, services, or works; (iv) providing technical support in the area of their competency for preparing studies and projects, holding bidding processes, and/or works supervision; (v) providing free access to the construction area to SETUR, the construction firms, external auditors, and the Bank; and (vi) adequately operating and maintaining the assets, in accordance with generally accepted technical standards. The entry into force of the cooperation agreement between SETUR and the participating sector or local administration, prior to the tendering of investments/works in their jurisdiction, and under the terms previously agreed on with the Bank, is a special execution condition.
- 3.4 To facilitate coordination between the participating entities (paragraph 3.3), SETUR, and the PCU, a program work group (PWG) will be created, chaired by the State Tourism Minister. Its functions will include: (i) advising the PCU in the planning and execution of activities and the evaluation and dissemination of results; (ii) facilitating the preparation and monitoring of each annual work plan (AWP); and (iii) expediting the internal processes of the respective entities in their areas of competency to implement the investments effectively. During execution, the private

sector, academia, and civil society will maintain the same active role they played in program preparation through the Sergipe State Tourism Forum.

- 3.5 **Program operating manual.** Program execution will be governed by the operating [manual](#), which defines the standards and procedures for the executing agency in programming, financial-accounting management, procurement, audit, and program monitoring and evaluation. It also includes: (i) eligibility criteria for investments and beneficiary selection; (ii) procedures and responsibilities of participating entities and the PWG; (iii) technical documentation to be prepared for each type of investment (including economic and socioenvironmental viability studies; technical specifications for construction and the design of tourist uses; and cost recovery, management, and works operation plans); (iv) technical and socioenvironmental supervision of studies and works; and (v) the ESMP (paragraph 2.4). **Bank approval of the operating manual, including the ESMP, is a condition precedent to the first disbursement.**

**B. Monitoring and evaluation arrangements**

- 3.6 The program has a [monitoring](#) and [evaluation](#) plan agreed on with the executing agency and incorporated into the budget (paragraph 2.1). It includes: (i) indicators for impact monitoring and evaluation, together with their baseline and means of verification; (ii) the critical path of program activities and outputs; (iii) the description, schedule, and entities responsible for the monitoring instruments; and (iv) the methodology, activities, and budget for implementing the plan. This will make it possible to rigorously measure the program's impact on the poor population, by gender and ethnic origin.
- 3.7 SETUR will file monitoring reports no later than 60 days after the end of each six-month period during program execution. These will indicate the status of physical and financial progress of the indicators and activities in the results matrix, AWP, and procurement plan, analyzing problems encountered and presenting the corrective measures for dealing with them. The reports in the second half of each year will include the AWP for the following year, together with the updated procurement plan and the status of and maintenance plan for completed works. In addition, SETUR will file the following evaluation reports, which will be produced independently and financed out of the loan proceeds: (i) preliminary, 18 months from the date on which the loan contract enters into force; (ii) midterm, 90 days after the date on which 50% of the loan proceeds have been committed; and (iii) final, 90 days after 90% of the resources have been disbursed. These reports will include: (i) financial execution by component and financing source; (ii) achievement of the results matrix outputs, outcomes, and impacts; (iii) effectiveness in implementing the program's operating manual; (iv) fulfillment of contractual clauses and the ESMP; and (v) a summary of socioenvironmental audits and financial statements, procurement, disbursement, and internal oversight. The final evaluation will also contain a measurement of the program's impact in accordance with the agreed plan (paragraph 3.6).

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	i) Lending for poverty reduction and equity enhancement, and ii) Lending to support climate change initiatives, renewable energy and environmental sustainability.		
Regional Development Goals	i) Share of formal employment in total employment, and ii) Proportion of terrestrial and marine areas protected to total territorial area (%).		
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) Number of jobs added to formal sector, ii) Municipal or other sub-national governments supported, and iii) Number of projects with components contributing to improved management of terrestrial and marine protected areas.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2662-1	Improvement in the competitiveness of tourism attraction destinations.	
Country Program Results Matrix	GN-2696	The intervention is included in the 2013 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.4		10
3. Evidence-based Assessment & Solution	10.0	33.33%	10
4. Ex ante Economic Analysis	10.0	33.33%	10
5. Monitoring and Evaluation	8.1	33.33%	10
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Medium		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B		
IV. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: Budget, Treasury and Internal audit. Procurement: Information system, Shopping method, Contracting individual consultant, National public bidding (Use of some National Sub-system).	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	The program includes activities in Component 1 "Tourism Product" aimed at increasing gender equity. The Results Framework includes indicators concerning this product.	
Labor	Yes	The program includes activities in Component 1 "Tourism Product" aimed at reducing informality and generate new formal jobs in the tourism sector. The Results Framework includes the related indicators.	
Environment	Yes	Includes Component 5 "Environmental Management", aimed at improving coastal management in tourist areas. The Results Framework includes the related indicators.	
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Technical assistance was provided to the Ministry of Tourism of the State of Sergipe to: i) develop tourism planning in the area of intervention: Integrated Development Plan for Sustainable Tourism-Costa PDITS-Pole and Pole Coqueuais do Velho Chico (2209/OC / BR), and to identify specific public investments to encourage private investment in tourism in the Polo Velho Chico (BR-M1074).	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	The impact evaluation methodology aims at providing rigorous evidence on the effectiveness of tourism programs in the LAC region in regards to increasing tourism expenditures and formal employment.	

The project document provides a thorough diagnosis of the challenges associated with promoting tourism in Sergipe. While the project is part of a general strategy for promoting tourism within Brazil that the Bank is supporting, it includes an empirical diagnosis of the particular issues facing the State of Sergipe. Further, an analysis has been completed to identify constraints to and the potential for tourism in the state (el Plan Estrategico de Desarrollo Sustentable del Turismo en el Estado de Sergipe) that has led to the prioritization of two tourism sites for investment. An additional analysis (Plan de Desarrollo Turistico Integral y Sostenible) has been prepared that identifies five key limitations to expanding tourism. The analysis is well done, provides an empirical assessment of the issues and potential solution, and offers a clear justification for the project. The Results Matrix reflects the objectives and sets of activities in the project and has a clear vertical logic. Key higher-level indicators have values that are consistent with the ex ante economic analysis. Lower level indicators reflect the project design. Values are provided and the means of collecting the information are noted.

The project design included an economic analysis that uses a state-level social accounting matrix to assess the impact of expanding tourism on the economy of Sergipe. This provides an aggregate estimate of the benefits of expanding tourism and when compared to the costs allows for a calculation of an internal rate of return which is found to be around 33%.

For the evaluation plan, the project team proposes creating a state-level social accounting matrix that incorporates the prioritized tourism sites. This allows for the analysis of the relationship between the selected sites and the state. Using existing data collection efforts, data will be collected on households, firms and tourists in order to create the social accounting matrix. While the evaluation plan does not follow the proposed simulation approach for evaluating tourism jointly developed by SPD and with RND, the underlying logic of integrating the two levels and simulating the impact of tourism expansion is similar. Plans are included for how to implement the evaluation.

## RESULTS FRAMEWORK

RESULTS FRAMEWORK (summary version). <sup>1</sup> For further details, see <a href="#">Results Framework – detailed version</a> .			
TOURISM DEVELOPMENT PROGRAM IN THE STATE OF SERGIPE (BR-L1256)			
<b>General objective:</b>	To increase income and formal employment in the state of Sergipe, by promoting tourism activity.		
<b>Specific objective:</b>	To elicit higher levels of tourist spending in the Costa dos Coqueiros and Velho Chico hubs through investments targeting the sun-and-sand, ecotourism, and cultural tourism segments.		
Impacts	Baseline (2008)	Target (2018)	Comments
<b>Higher income and increased formal employment in the state of Sergipe</b>			<i>Source:</i> National Household Sample Survey (PNAD) 2008 and evaluation of the program's impact.
Indicators:			
1. Average annual household income in Sergipe (R\$)	27,807 <sup>a</sup>	28,231	<sup>a</sup> The total number of households in Sergipe in 2008 was 565,651.  <i>Targets:</i> Calculations based on projections obtained in the program's economic evaluation. The estimated target for 2028 is 3,609 new tourism jobs in the state, of which 2,863 would be direct jobs (in ACTs) and 746 would be indirect jobs.
2. Formal jobs in activities characteristic of tourism (ACTs) in Sergipe (number)	8,423	9,819	
3. Women formally employed in ACTs in Sergipe (%)	51.6	53.0	
Outcomes	Baseline (2012)	Target (2018)	Comments
<b>Higher tourist spending in the Costa dos Coqueiros and Velho Chico hubs</b>			<i>Source:</i> State Tourism Department (SETUR). <i>Target:</i> Calculation based on projections obtained in the program's economic evaluation. The estimated target for 2021 for the daily per capita spending by leisure tourists staying in the state's hotel network is R\$260.48 (a 7% increase).
Indicator:			
1. Daily per capita spending by leisure tourists lodged in the state's hotel network (R\$/day and person)	245.39	252.80	

<sup>1</sup> Contains the program's impact and outcomes by component. The detailed version also includes the outputs of each component.

Component 1. Socially Inclusive Tourist Product								
Outcomes	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
<b>Outcome 1. Greater supply of leisure tourism products in the state</b> Indicator:								<i>Source:</i> SETUR. <i>Target:</i> Calculated on the basis of the program's economic evaluation. The estimated target for 2021 is 4.70 days.
<ul style="list-style-type: none"><li>Average length of stay by leisure tourists in the hotel network (days/person)</li></ul>	4.43			4.47			4.56	
Component 2. Tourism Promotion								
Outcomes	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
<b>Outcome 2. Better positioning of Sergipe as a leisure tourist destination.</b> Indicator: <ul style="list-style-type: none"><li>Proportion of leisure tourists visiting Sergipe influenced by tourism promotion (%)</li></ul>	13.5			15.0		18.5	18.5	<i>Source:</i> SETUR.
Component 3. Institutional Strengthening								
Outcomes	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
<b>Outcome 3. Greater tourism planning and management capacity in coordination with the different stakeholders.</b> Indicator: <ul style="list-style-type: none"><li>Proportion of program beneficiary municípios forming part of the State Tourism Forum (FORTUR) and the Regional Tourism Boards (CRTURs) of the hubs (%)</li></ul>	25			50		70	70	<i>Source:</i> SETUR.
Component 4. Support Connectivity								
Outcomes	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
<b>Outcome 4. Enhanced tourism connectivity in the state</b> Indicator: <ul style="list-style-type: none"><li>Proportion of tourists dissatisfied with the infrastructure for reaching the state and its attractions (%)</li></ul>	28			27		25	25	<i>Source:</i> Sergipe Tourism Company (EMSETUR), survey of tourism demand.
Component 5. Environmental Management								
Outcomes	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
<b>Outcome 5. Improved environmental management of the tourism coastline</b> Indicator: <ul style="list-style-type: none"><li>Km of the state's coastline with erosion problems of human origin (%)</li></ul>	21			20		19	19	<i>Source:</i> Ministry of the Environment and Water Resources (SEMARH). 31.5 km of the 150 km of coastline has erosion problems.

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

**Country:** Brazil

**Project number:** BR-L1256

**Name:** Tourism Development Program in the State of Sergipe (PRODETUR Nacional/SE)

**Prepared by:** Leise Estevanato (Financial management specialist)  
Carlos Lago (Procurement specialist)

### **I. EXECUTIVE SUMMARY**

- 1.1 Fiduciary management was evaluated on the basis of meetings held between the Bank's project team, that of the executing agency, and various government authorities. Account was also taken of the operation's preparation documents and the Bank's experience working with other similar tourism projects and at the state government level.
- 1.2 In view of the evaluation performed on the executing agency, fiduciary agreements have been drawn up for both procurements and financial management, to be applied during program implementation. The design of the fiduciary agreements has also taken account of the fiduciary context of the country and executing agency, the salient points of which are summarized in the following paragraphs.

### **II. THE COUNTRY'S FIDUCIARY CONTEXT**

- 2.1 Brazil has good country fiduciary systems that permit and facilitate sound management of administrative, financial, oversight, and procurement processes, upholding principles of transparency, economy, and efficiency. The Bank is working with the Brazilian government to further strengthen them, with a view to making sustainable use of the country's fiduciary systems.

### **III. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT**

- 3.1 The executing agency will be the State Tourism Department (SETUR) acting through a program coordination unit or the PRODETUR coordination unit in Sergipe (PCU) to be created, which will receive management support from a firm to be selected and financed out of the loan proceeds. This unit will be responsible for coordinating, planning, monitoring, and implementing the activities related to the projects and actions financed with program resources.
- 3.2 The executing agency will be responsible for fiduciary management of program implementation, including budget formulation, undertaking and monitoring

- procurement and contracting processes, supporting the performance of contracts, and facilitating the authorization and recognition of expenditures and the respective payments.
- 3.3 In addition, a Special Bidding Committee will be set up within the PCU, for a period of five years from the date of the latter's creation.

#### **IV. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS**

- 4.1 As a result of the exercise to evaluate risk and the institutional capacity of SETUR, the following fiduciary risk was identified that could give rise to implementation delays: delays in processing accounting and financial information and in producing reports, owing to a lack of knowledge of the Bank's regulations (financial, accounting, procurement, status reports, and others). The following mitigation actions are proposed:
- a. Immediate start to the process of contracting an integrated program management system, to include a financial and accounting management module suitable for generating the project's disbursement requests and financial reports, as well as the other controls required by the Bank;
  - b. Creation of the Special Bidding Committee, hiring of its staff, and training in the Bank's procurement policies;
  - c. Selection of a management firm to collaborate with PCU staff, including legal advisers where necessary, and the holding of training events for members of the PCU and staff of the management firm and SETUR involved in program implementation.

#### **V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS**

- 5.1 Conditions precedent to the first disbursement: The borrower will provide evidence of the following: (i) having completed the shortlist phase for selecting the management firm to support the PRODETUR coordination unit (PCU); and (ii) Bank approval of the program operating manual, including a program Environmental and Social Management Plan (ESMP).
- 5.2 Special execution conditions: The borrower will provide evidence of the following: (i) implementation of the integrated program management system, and creation of the Special Bidding Committee, prior to the tendering of the first work, and under the terms previously agreed on with the Bank; (ii) entry into force of the cooperation agreement between SETUR and the participating sector administration or local administration, prior to the tendering of investment/works in its jurisdiction, under the terms previously agreed on with the Bank; and (iii) contracting of the works supervision firm prior to the start of works execution.



## VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

### 1. Procurement execution

- 6.1 The fiduciary agreements and requirements for procurements define the conditions to be applied and observed when implementing all procurement and contracting processes envisaged in the program:
- 6.2 **Procurement of works, goods, and (nonconsulting) services.** The procurement or contracting of works, goods and services, financed wholly or partly out of the Bank financing, will be undertaken pursuant to the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-9) of March 2011.
- 6.3 To apply the provisions of Law 10.520/2002, the following thresholds will be observed: (i) electronic auction, using the systems approved by the Bank for the procurement of goods and services of common use, costing US\$5 million or less; and (ii) registered price list, for procurement of common goods with an estimated cost of US\$5 million or less, the registration of which has previously been accepted by the Bank. The Bank may cancel the use of one or more of the modalities described in this paragraph at any time during program implementation.
- 6.4 **Selection and contracting of consulting services.** Processes for the selection and contracting of consulting services for the program, financed wholly or partly out of the proceeds of the Bank financing, will be undertaken pursuant to the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9) of March 2011.
- 6.5 The shortlist for processes with an estimated cost of less than or equal to US\$1 million, per contract, may consist entirely of national consulting firms. If the estimated cost of the contracting is equal to or above that amount, the shortlist will consist of six firms, no more than two of which may be of the same nationality.
- 6.6 The selection and contracting of individual consultants, financed wholly or partly with the proceeds of the Bank financing will abide by the provisions of Section V (Selection of Individual Consultants) of document GN-2350-9.
- 6.7 **Retroactive financing and recognition of expenditures.** In accordance with Operational Policy OP-507 (document GN-2259-1), the Bank may allow up to US\$130,000 in eligible expenditures to be retroactively financed against the loan proceeds and up to US\$8 million to be recognized against the local contribution when incurred by the borrower before the loan was approved by the Bank's Board of Executive Directors, for (i) professional and business training in tourism (retroactive financing); (ii) final designs for tourist signposting; (iii) works for the adaptation and improvement of infrastructure to access tourist attractions; and (iv) final designs and complementary works to facilitate the expansion of the Aracajú airport, provided the borrower shows that the respective works are completed in accordance with current environmental legislation, and have fulfilled requirements analogous to those set forth in the loan contract. Such expenses will

have been incurred starting on the date of approval of the project profile (24 August 2012). Under no circumstances will expenses be recognized if they were incurred more than 18 months before the date of loan approval.

- 6.8 **Domestic preference.** No margins of domestic preference will be applied.
- 6.9 **Procurement thresholds.** The thresholds triggering the use of international competitive bidding (ICB) will be made available to the borrower, or the executing agency as the case may be, online at [www.iadb.org/procurement](http://www.iadb.org/procurement). For amounts below that threshold, the selection method will depend on the complexity and characteristics of the procurement or contracting process in question, and will be indicated in the procurement plan approved by the Bank.
- 6.10 **Main procurements**

Activity	Type of bidding	Estimated amount US\$
<b>Works</b>		
Tourism and environmental upgrading of the natural and scenic route of the northern coast	National competitive bidding (NCB)	8,000,000
Implementation of the sewage disposal system in strategic coastal municípios for tourism: Crasto (Sta. Luzia do Itanhy), Pontal (Indiaroba), Prainha (Canindé de São Francisco)	NCB	8,000,000
Urban and tourism-related upgrading and demarcation/protection of dunes on the beaches of the southern coast of Aracajú	NCB	6,000,000
<b>Services</b>		
Assistance for tourism MSMEs to improve service quality and promote environmental management and social responsibility	NCB	1,000,000
Execution of the state's strategic tourism marketing plan	NCB	5,181,350
<b>Consulting (firms)</b>		
PCU management support firm	Quality- and cost-based selection (QCBS)	3,671,090
Works inspection and supervision	QCBS	1,398,000
Final and complementary designs for extending the landing runway and for the new passenger terminal at Aracajú airport	QCBS	3,626,940
Institutional strengthening of state's tourism management agencies	QCBS	1,500,000
Implementation of the state's tourist information and statistics system (market and socioeconomic studies)	QCBS	1,347,150
Implementation of the professional and business training plan	QCBS	2,590,680

## 2. Procurement supervision

- 6.11 By agreement with the team, it was decided that processes identified as complex in the approved procurement plan will be reviewed ex ante, as will all processes with an estimated cost above the ICB thresholds and all direct contracting.

## 3. Special provisions

- 6.12 Procurement plan. SETUR will present updates of the procurement plan for the following 18 months, for review and approval by the Bank, either annually or as needed.

#### **4. Records and filing**

- 6.13 The program's records and files will satisfy the following conditions, at least:
- a. The records/processes will contain original documentation, filed in chronological order.
  - b. The records/files will be maintained in a suitable environment intended for that purpose, with restricted access and security maintained by preventive measures, such as no smoking on site, access to authorized personnel only, etc.
  - c. A log will be kept of all documentation filed.

#### **VII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS**

- 7.1 The strategic and technical coordination of the program is the responsibility of SETUR, which will set program guidelines and priorities.
- 7.2 SETUR, working through a PCU, will also be the operational interlocutor with the Bank and will be responsible for the implementation and general coordination of the program, specifically: (i) planning the execution of activities as defined in the program execution plan (PEP), the budgets, and the annual work plan (AWP); (ii) preparation and updating of the project's initial report, the AWP, the procurement plan, semiannual status reports, evaluation reports, and the project completion report; (iii) management, monitoring, and supervision of the execution of the AWP and the indicators defined in the operation's results matrices; (iv) budgetary and financial programming of the operation and implementation of the respective monitoring activities; (v) implementation and maintenance of an oversight system that ensures appropriate use of the loan proceeds, and the maintenance and adequate preservation of project documents; (vi) execution and supervision of the project's technical aspects; (vii) implementation of the activities needed to process program procurements; (viii) preparation of technical files for the execution of each component; (ix) formulation of technical specifications and terms of reference for procurement processing; (x) preparation and periodic presentation of reports on the program's qualitative and quantitative status; and (xi) fiduciary management of the execution of the operation and responsibility for contracting and the program's financial administration, including the provision of funds and payments, preparation of financial reports, filing of accounts, preparation of disbursement requests, and the presentation of information for audit.
- 7.3 The project budget will be duly registered and operated through the financial management system used by the state.
- 7.4 The budget assigned to program activities will be approved through a suitable legal instrument. The Bank will reimburse admissible project expenditures according to the established and executed agreements.

### 1. Accounting and information system

- 7.5 The project's budgetary and financial execution will be handled directly by the system, which will be duly adapted for that purpose.
- 7.6 With regard to the financial module, in addition to the standardized Bank reports, the "financial plan" report will need to be prepared to support requests for funding advances for the project.

### 2. Disbursements and cash flow

- 7.7 The program will operate with funds advanced by the Bank to meet the project's real liquidity needs. For that purpose, it will be necessary to submit a disbursement request accompanied by a financial plan showing the need for funding for the intended period, as previously agreed on with the Bank. The PCU will send the Bank an initial project financial plan, which will contain the disbursement schedule for the entire execution period. That plan will serve as the basis for the first plan, reflecting the first six months of implementation, based on which the first funding advance will be planned. To obtain future advances, at least 80% of the funds previously advanced will need to be accounted for, and a new financial plan submitted for the period in question.
- 7.8 For the purpose of accounting for the loan proceeds and local counterpart funding, amounts paid in local currency will be converted to the currency of the operation, according to the following exchange rate provisions: (i) the exchange rate prevailing on the payment date; or (ii) the exchange rate prevailing on the date of conversion from the currency of the operation into local currency, in the case of funding advances; and by the exchange rate prevailing on the day prior to the presentation of a disbursement request, in the case of applications for reimbursement and local counterpart funding.
- 7.9 Documentation in support of expenditures made will be reviewed ex post.

### 3. External oversight and reporting

- 7.10 External oversight will be maintained by a previously selected independent auditing firm, to be contracted pursuant to the Bank's specific policy and procedures for that purpose. The project will file duly audited annual financial statements with the Bank, no later than 120 days after the end of the fiscal year.

### 4. Financial supervision plan

Supervision activities	Supervision plan			
	Nature and scope	Frequency	Entity in charge	
			Bank	Third party
OPERATIONAL	Review of the physical status of actions and activities specified in the components, versus disbursements	Semiannual	Technical team	
	Review of status report	Semiannual	Fiduciary and technical teams	Executing agency
	Review of portfolio	Annual	Technical team	

Supervision activities	Supervision plan			
	Nature and scope	Frequency	Entity in charge	
			Bank	Third party
<b>FIDUCIARY</b>	Prior and post review of disbursements and procurements	Annual	Fiduciary team	Fiduciary team and external auditors
	Financial and operational audit	Annual		External audit firm
	Review of disbursement requests and attached reports	Periodic	Fiduciary and technical teams	
	Visit to inspect and analyze internal controls and the oversight environment	Annual	Fiduciary team	
<b>COMPLIANCE</b>	Annual allocation of budgetary resources needed for project execution	Annual	Fiduciary team	Executing agency
	Presentation of audited financial statements and operational audit	Annual	Fiduciary and technical teams	Executing agency
	Conditions precedent to the first disbursement	Once only	Fiduciary and technical teams	Executing agency

The supervision plan as specified assumes a medium-risk operation; nonetheless, it could be altered during project execution, according to the risk circumstances observed or additional oversight needs as determined by the Bank.

## 5. Execution mechanism

- 7.11 In view of the execution mechanism defined in the proposal for operation development (POD), a centralized management and financial implementation scheme is needed, through the PCU, which will be responsible for annual formulation of the budget and financial execution, both of the local counterpart and of the Bank loan.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_\_/13

Brazil. Loan \_\_\_\_/OC-BR to the State of Sergipe  
Tourism Development Program in the State of Sergipe  
(PRODETUR Nacional/SE)

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 the State of Sergipe, as Borrower, and with the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the Tourism Development Program in the State of Sergipe (PRODETUR Nacional/SE). Such financing will be for an amount of up to US\$60,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2013)

LEG/SGO/CSC/IDBDOCS: 37711650  
Pipeline No.: BR-L1256