

## TC PROFILE (ABSTRACT)

### I. BASIC PROJECT DATA

Country/Region:	Brazil		
Project Name/Number	Estrada Real – Network of Tourism SMEs. <b>BR-M1024</b>		
Team Leader/Members:	Carmen Altés, Team Leader (RE1/EN1); Coral Fernández (RE1/EN1); Santiago Soler (MIF); Maritza Vela (MIF); Gerardo Martínez-Freyssinier (COF/CBR); and Alicia Maldonado (RE1/EN1).		
Date of Request:	20 <sup>th</sup> April 2004		
Beneficiary/Executing agency:	Federação das Industrias do Estado de Minas Gerais – FIEMG, and Instituto Estrada Real, Belo Horizonte, Minas Gerais, Brazil.		
Financing plan:	MIF Facility III-A	US\$	1,500,000
	FIEMG	US\$	1,500,000
	Total	US\$	3,000,000
Tentative dates:	EVP: May 3, 2005	DIR: May 25, 2005	

### II. BACKGROUND AND PROBLEM STATEMENT

- 2.1 The Estrada Real is a tourism circuit developed around the theme of the historic towns of the golden mining age in Brazil and the transport corridors of the period. The circuit is 1400km long and it links Rio de Janeiro and Paraty with Ouro Preto and Diamantina going through 177 municipalities most of them in the State of Minas Gerais.
- 2.2 In 2003 a Strategic Tourism Plan for the State of Minas Gerais was prepared with funds from the IDB. It concluded that the potential for tourism development has not been fully developed. In particular, most tourist companies along the Estrada Real are locally owned SMEs<sup>1</sup>, do not belong to sectoral associations, are not organized to carry out a proactive marketing action, and the occupation of the accommodations is low. They need to establish partnerships and improve their ability to develop, promote and sell competitive

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<sup>1</sup> The tourism statistics are very poor or simply do not exist. According to the Strategic Tourism Plan the total number of accommodation companies in the State of Minas Gerais is 3000, of which 132 are situated in the capital Belo Horizonte. The average size is 35 rooms and the average number of beds per room is 2.25. The average occupation per bed is 30-35%. The percentage of overnight stays by foreigners is situated between 3,5% and 5%. The estimated volume of the present international demand for the whole State of Minas is 70.000 visitors per year.

tourism products and services targeting the domestic and international markets, and deliver quality tourism services.

- 2.3 In April 2004, the FIEMG/IER requested a MIF operation to support tourism development in the Estrada Real. After a review of the proposal, and discussions between the Bank and FIEMG/IER, it was agreed that the project will aim at developing a Network of Tourism Enterprises (NET) around a scheme of product/service brands based on quality standards, and distinctive product features, which will add value to the destination and its product range, facilitating the marketing action. The different brands will be based on the destination brand Estrada Real, and will be complemented with a system for joint promotion and commercialization of the companies under the branding scheme. The proposed project is part of the MIF's sustainable tourism cluster and as such will seek to spur the sustainable development of tourism to increase benefits for local communities, preserve cultural and environmental integrity and the nation's cultural and natural heritage.
- 2.4 As the project needed further development, the Bank and the FIEMG/IER agreed to conduct project preparation activities financed by the **Italian Trust Fund** for MIF Project Preparation. A Technical Cooperation (BR-T1016) was approved on July 1, 2004. The results from the TC were discussed with the FIEMG/IER in November 2004. The conclusions were: i) it is relevant to propose the creation of the NET, ii) there is interest among the local stakeholders in the initiative (321 tourism companies in the area, offering a minimum of service standards, have been identified, confirming that there is a critical mass of potential members), and iii) project activities will be organized in four components and will concentrate in three pilot areas.
- 2.5 As a private sector led initiative, the project will have a significant **demonstration** effect by supporting the product development and commercialization efforts of SMEs that will, in turn, improve the promotion of the destination as a whole.

### III. PROJECT OBJECTIVE AND DESCRIPTION

- 3.1 The goal of the project is to contribute to the improvement of the competitiveness of the tourism SMEs along the Estrada Real. The purpose of the project is to set up and launch a Network of Tourism Enterprises, a cluster of companies working together, with long-term vision, to proactively develop and market well-targeted tourism products. The project will finance 4 components and, considering the extension of the Estrada Real, will concentrate its activities in three pilot areas around: Ouro Preto, Santa Barbara and Sao Joao del Rei.
- 3.2 **Component 1: Design and organization of a Network of Tourism Enterprises (NET).** The purpose of this component is to conceptualize and define the rules of the game for the NET. The component will finance two activities. The production of an Operational Manual and an awareness campaign. The Operational Manual will include: i) the concept of the NET, typology of members and expected benefits for each of them; ii) definition of objectives and strategies; iii) application of the brand Estrada Real to the different types of members and definition of minimum quality standards required to join the network; iv)

a proposal of legal form for the NET; v) institutional organization defining the roles of the different actors; vi) extent of the commercialization and booking system; and vii) internal regulations. In addition, an awareness campaign will be organized to make the initiative known and invite potential members to join the NET, including a seminar on best practices.

- 3.3 **Component 2: Tourism Product Development.** This component aims at improving the cooperation among the tourism companies of the NET to develop well-targeted tourism packages. This component will finance the following activities: i) technical assistance for the creation of a data-base of the main cultural and natural tourism attractions; ii) technical assistance of 3 local experts (1 for each pilot area) to coordinate the development of tourism packages in each of them; and iii) a study to define a plan of public use for private tourism attractions.
- 3.4 **Component 3: Promotion and Commercialization.** The purpose of this component is to make the product known to the commercial channels and potential tourists and generate demand. It will finance a Tourism Marketing Expert to assist the executor in the definition and implementation of the promotion and commercialization activities of the NET. It will also finance technical assistance and implementation of some basic promotion activities during the launching phase: i) website including a business plan; ii) development and setting up of a booking system; iii) advertisement campaign at local level; iv) conception, editing, printing and distribution of a product catalogue targeting final consumers; v) production of a sales manual targeting the sales channels; vi) organization of press tours for national and international journalists; vii) organization of educational / fam-trips for travel agents; and viii) organization of two workshops –one national and one international– with tour operators.
- 3.5 **Component 4. Awareness and Training.** The purpose of this component is to support the development of the NET and its tourism products by improving the technical skills of the members of the NET. This component will finance technical assistance for the design, development and implementation of specialized seminars, as well as the production of support materials.
- 3.6 The overall expected results include SMEs joining the network, and increased demand for services of the member companies through the commercialization of well targeted tourism packages.

#### IV. COST AND FINANCING

- 4.1 The project has a cost of US\$ 3,000,000, of which 50% will be covered by the local counterpart. The MIF funds will allow the executor to expand its present activities by providing the start-up funds necessary to set-up the NET. The FIEMG will be responsible for the counterpart contribution.

<b>Components</b>	<b>MIF (US\$)</b>	<b>FIEMG (US\$)</b>	<b>TOTAL</b>
1. Management & Administration	130,000	330,000	460,000
2. Design & Org.	220,000	170,000	390,000
3. Tourism Product Development	300,000	170,000	470,000
4. Promotion and Commercialization	500,000	400,000	900,000
5. Awareness and Training	50,000	430,000	480,000
6. Evaluation, Auditing & contingencies	300,000	0	300,000
<b>TOTAL</b>	<b>1,500,000</b>	<b>1,500,000</b>	<b>3,000,000</b>

## **V. EXECUTING AGENCY AND EXECUTION STRUCTURE**

- 5.1 The project will have as co-executors the Industry Federation of the State of Minas Gerais (FIEMG), and the Instituto Estrada Real (IER). FIEMG's mission is to lead the sustainable strategic development process of the industrial sector in the state, strengthening the competitiveness of its members, partners and collaborators thus contributing to improve the socio-economic conditions in the State. To promote the state's tourism industry and the sustainable development of the Estrada Real region, FIEMG created the Instituto Estrada Real (IER) a private non-profit organization established in 1999. The IER has a staff of 18 employees (15 full time and 3 interns). FIEMG's operating budget for 2004 was US\$11 million, while IER's was US\$4.6 million for the same period. While a relatively young institution, IER has demonstrated a strong capacity to develop partnerships with private companies and public institutions, including major ones such as Fiat, Coca-Cola and Master Card as well as the Ministry of Tourism, the Government of the State of Minas Gerais and SEBRAE (Serviço Brasileiro de Apoio à Micro e Pequena Empresa) and the Instituto de Hospitalidade.
- 5.2 Until now, the IER has carried out an effective promotion of the brand, that has been useful to position the destination in the market, but they need to strengthen their capacity to provide support to the tourism sector in product development and commercialization of specific packages and services. The project will finance a small executing unit within the IER that will strengthen its tourism management capabilities during the 3 years' duration of the project and will ensure the continuity and sustainability of the initiative in the future.

## **VI. SPECIAL ISSUES**

- 6.1 During the Analysis Mission the following aspects should be addressed: i) reconfirm the commitment of local counterpart, specifying contribution in cash and in kind; ii) conduct an institutional analysis to assess the capability of the executor to carry out the project; iii) define the profiles of the tourism experts required to provide sectoral know-how; and iv) define the activities of component 4.

## **VII. ACTION PLAN**

- 7.1 The calendar for the project preparation is the following:

POC: 9 March

CESI: 11 March

Analysis Mission: 10-15 March

CRG: 26 April

Donor Committee: 25 May

## **VIII. ENVIRONMENTAL AND SOCIAL STRATEGY**

- 8.1 No environmental or social impacts are expected from this operation directly. In fact, the project is expected to create some positive impacts by increasing the awareness of the local population about the value of the natural and cultural heritage, and by improving their capacity to benefit from the business opportunities provided by tourism.