

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

**FACILITY TO LEVERAGE AND SCALE UP THE EXPERIENCE OF
THE MIF'S SUSTAINABLE TOURISM CLUSTER**

AND

**REGIONAL NONREIMBURSABLE TECHNICAL-COOPERATION
FUNDING**

**(SUPPORT FOR THE ADMINISTRATION AND IMPLEMENTATION
OF THE FACILITY)**

(RG-M1133)

DONORS MEMORANDUM

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ABBREVIATIONS

GDP	Gross domestic product
IIC	Inter-American Investment Corporation
MIF	Multilateral Investment Fund
MSME	Micro, small, and medium-sized enterprise
SME	Small and medium-sized enterprise
UNWTO	United Nations World Tourism Organization

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EXECUTIVE SUMMARY

Beneficiary country:	Regional
Executing agency:	Individual projects to be financed with resources from the Facility will be implemented by nonprofit institutions in Latin American and the Caribbean having experience with micro, small, and medium-sized enterprises (MSMEs) and/or sustainable tourism development.
Beneficiaries:	<p>The beneficiaries will be local MSMEs; tourism services and nontourism services related to the tourism product being offered; nongovernmental organizations specializing in tourism; and national, regional, and local governments in the destinations where tourist attractions are located—in sum, all those actors participating directly or indirectly in the sustainable tourism product value chain, with an emphasis on inclusive chains involving lower social strata.</p> <p>The benefits of the Facility include: (i) applying acquired knowledge, being proactive, and successfully guiding the tourism sector of Latin America and the Caribbean in the development of innovative and inclusive initiatives and businesses; (ii) scaling up knowledge from the pilot projects to the level of loans and investment operations; (iii) leveraging funds with other donors, the private sector, and governments; (iv) promoting public-private partnerships for local land management in tourist destinations; (v) firmly establishing the MIF as an international benchmark institution for sustainable tourism know-how; (vi) continuing to contribute significantly to poverty reduction; and (vi) preserving the cultural and natural assets of the peoples of Latin America and the Caribbean.</p>

Amount and source:	MIF	US\$10,800,000 (34%)
	- Facility	US\$10,000,000
	- Technical cooperation funding	US\$ 800,000
	Counterpart – executing agencies	US\$ 8,750,000 (27%)
	Counterpart – private/public entities and other donors	<u>US\$12,635,000 (39%)</u>
	Total:	US\$32,185,000 (100%)
Objectives and description:	The goal of the Facility is to help increase income, employment, and economic development in the region's sustainable tourism sector. The purpose of the Facility is to effectively and efficiently finance projects during the 2008-2011 period that support sustainable tourism development, taking into account the lessons learned in the cluster during the 2004-2007 period as well as new partnership and scalability opportunities identified.	
Terms:	Duration of the Facility: 42 months	
Exceptions to Bank policy:	None	
Social and environmental impact:	This project was classified as a category "C" project (ESR of 2 June 2008).	
Coordination with other development finance institutions:	No other institutions are carrying out projects on a comparable scale or with methodology similar to the proposed Facility. Nevertheless, this Facility envisages coordinating with other donors and leveraging the actions that arise from identified and approved projects.	

I. BACKGROUND AND RATIONALE

- 1.1 Tourism is currently one of the largest and fastest-growing industries in the world. Tourism activities account for approximately 11% of global GDP, employing 260 million people and generating US\$740 billion in revenue during 2007, which is 22% more than in 2004. Some 700 million people travel as tourists every year, and the United Nations World Tourism Organization (UNWTO) has estimated that that number will double by 2020. For developing countries, the tourism industry has become a growing source of income. In the last year, tourist arrivals rose by 14% in Central America and by 13% in South America, in contrast with the 5% average growth rate for tourism activities in the rest of the world during this same period.¹ In Latin America and the Caribbean, tourism has surpassed agriculture in terms of job creation (7% of total jobs). According to the UNWTO, these results are largely associated with the economic growth of the Latin American and Caribbean countries and with their success in improving the quality and diversity of tourism offerings.
- 1.2 **Unique sector characteristics.** The MIF's main arguments in favor of tourism as an option for sustainable development are: (i) tourism capital includes the cultural and natural heritage that the developing countries in Latin America and the Caribbean already have; (ii) the commercial success of a tourism destination or product is intimately related to the quality of its attractions and resources, making tourism a key partner for sustainable development and heritage conservation efforts; (iii) tourism provides a socioeconomic development opportunity for local populations in areas where no other alternatives for economic activity exist;² (iv) as tourism is a services sector, production and consumption are simultaneous and take place in the destination countries, providing more opportunities for local businesses to develop; (v) the sector consists mainly of local communities and micro, small and medium-sized enterprises (MSMEs); (vi) tourism is an invisible export sector over which the countries of Latin America and the Caribbean have greater control, as it is not subject to the red tape, tariffs, regulation, and technical barriers involved in international trade; and (vii) the sector is labor-intensive and offers numerous job and business opportunities for women, young people, and indigenous communities.
- 1.3 Tourism is an economic activity that rests on the existence, quality, and maintenance of natural and cultural attractions; **sustainability** and **competitiveness** are therefore closely related concepts in the management of tourist destinations, and this relationship is a feature of MIF-supported projects.

¹ The growth rate for the Caribbean was approximately 4% owing to the decline in cruise-ship arrivals. This compares with an increase of approximately 12.2% up until 2005. The main reasons for this were the rise of new cruise-ship destinations and the reappearance of competing destinations that had been hurt by factors such as the gulf war and SARS (*Report on Caribbean Tourism Industry Performance*, Caribbean Tourism Organization).

² This makes it a key strategy for poverty reduction.

- 1.4 **General limitations of the sector.** Although the economic advantages of tourism are undeniable, the countries with growing tourism industries in Latin America and the Caribbean need to be aware that indiscriminate development of tourism activities can create serious ecological and social problems. Other sector problems are common to the majority of the countries in the region as well: (i) local actors receive only a small share of the benefits; (ii) tourism development planning capacity is very limited, both regionally and at the destination and product levels; (iii) there is a supply-side approach to product development, without accurate knowledge of markets and market trends; (iv) coherent destination/product promotion and differentiation strategies are lacking; (v) the big benefits of tourism are lost to developed countries (mainly with regard to prepaid packages or all-inclusive vacations);³ and (vi) MSMEs use trial and error and lack methodological and technical references, resulting in inefficient investment and a lack of economies of scale.
- 1.5 For travelers, choosing sustainable tourism products brings two types of satisfaction or reward: gaining an enriching travel experience that goes beyond the traditional “package,” and benefiting the local populations and attractions with their visit. These changes in consumer behavior translate into a series of market demands that present new opportunities to directly benefit local inhabitants and the attractions characteristic of these destinations.
- 1.6 **An historic opportunity:** It has been shown that today more than 68% of consumers of thematic and/or specialized tourism products (unlike traditional mass tourism) use the Internet to research, select, and purchase those products. This dramatically alters the working structure of the value chain in these market segments and places the consumer a few clicks away from the environmental and social realities of the destinations. This significantly increases consumers’ level of sensitivity and involvement, and that represents a great and historic opportunity for the sector. The sustainability of tourism and its role in the development of peoples are thus intrinsically linked to the use of information and communication technologies and the virtual interface between consumer and beneficiary.
- 1.7 **Sustainable tourism cluster results for the 2004-2007 period.** The MIF Donors Committee approved 22 projects in 19 countries during the 2004-2007 period for a total contribution of approximately US\$28 million, with a counterpart contribution of US\$19 million. In terms of the cluster’s **effectiveness**,⁴ during the 2003-2007 period 90% of projects were rated *highly satisfactory* or *satisfactory*, and all the projects have a *very probable* or *probable* classification in terms of achieving their

³ As much as 80% of international tourism revenues flow out of Latin America and the Caribbean; research has shown that those tourism businesses that implement the best sustainable tourism practices can keep up to 95% of locally earned foreign exchange in the receiving country.

⁴ Effectiveness is defined as the combination of implementation progress (outputs at the component level) and achievement of development objectives (outcomes at the purpose level).

development objectives. As for its **efficiency**, without factoring in the two projects approved in 2007, the average percentage of funds disbursed is approximately 40%.

- 1.8 With regard to the cluster's **relevance**, it should be noted that the projects have been needed to enhance the supply of sustainable tourism products and make it the largest type of MSME-based tourism offerings in Latin America. As for geographical **coverage**, work is currently being done in 19 countries; most of the interventions at the level of links in the chain have occurred in the subsector of small and medium-sized destination tourism service providers. The **pertinence** of the cluster as a whole has been very high; it has been a pioneering effort within the donor community, and is beginning to become a global benchmark because of its targeting and scale.⁵
- 1.9 The 2004-2007 period has been one of management and learning for the MIF and the executing agencies participating in the cluster. The MIF cluster strategy (document MIF/GN-56), embodied—in the case of tourism—in the action plan presented in September 2004, has made it easier to identify, systematize, and disseminate the **good practices** generated by projects. Dissemination has been based on the ability of the cluster to keep the executing agencies and other key actors such as MIF specialists informed and to encourage exchanges amongst them. To meet these objectives, the cluster has, through the work of consultants and technical assistance, acquired analysis, communication, and technical response capabilities. Emphasis has been placed on systematizing the processes for collecting and managing data and for turning that data into practical know-how. The cluster publication *Sendas/Paths* features fact sheets with basic project information, including project objectives, information on executing agencies, components in execution, beneficiaries, and project contributions to the cluster's pool of good practices.
- 1.10 In 2006 the MIF, through the cluster team, participated in formulating strategic guidelines for the Bank Group's intervention in the tourism sector. The MIF has coordinated with the Bank from the outset, though coordination was stressed even more in 2006 and 2007, in analyzing at least five operations, most of which clearly complement Bank lending operations (Argentina, Brazil, Chile, Mexico, and Peru). A major opportunity exists to scale up the lessons learned in MIF projects to loan operations.
- 1.11 The work done by the cluster coordination team and the consultants served to make a diagnostic assessment and identify the necessary adjustments for MIF interventions to be more strategic in the future. This work included missions and surveys of MIF specialists, project visits and interviews with project coordinators, and annual workshops with a broader universe of actors participating in the cluster. The findings can be summarized as follows: (i) most projects are designed and

⁵ The MIF is receiving invitations from various regional and nonregional organizations to give presentations on its experience in the sector.

- implemented from a supply-side perspective and with a limited, very localized vision, because executing agencies are unfamiliar with how the value chain works and what the market requirements are; (ii) there is little capacity to do market analysis and far less ability to adapt the products offered to shifting trends; and (iii) there is little local capacity to identify and interpret attractions from the point of view of demand.
- 1.12 This situation keeps the development of this segment of supply under an endemic vision, and significant development opportunities are missed; (iv) there is no systematic or geographical vision of tourism development, with some confusion as to scale of work and scale of action, leaving major investments and initiatives at the mercy of trial and error and the lack of meticulous planning; (v) the prevailing vision for the development of MSME-based tourism initiatives is very narrow, with no capacity for planning by the tourism system or for a sustainable connection between business and demand; and (vi) lack of understanding of the market limits entrepreneurs' room for creativity, which often undermines the potential of a destination's attractions.
- 1.13 By understanding this situation and monitoring it through projects, the cluster coordination team was able to develop **corrective strategies** so that new tools and methodological bases can be generated to make local communities and MSMEs more competitive and to scale up outcomes to other levels. Having monitored the operations as a cluster of projects and having a tourism expert as technical advisor for the cluster has made it possible to identify—in a very short period of time—weaknesses that, technically, would have been difficult to detect outside the context of a cluster strategy. The identification of weaknesses very early in the project cycles serves as a basis not only for taking action with regard to future proposals and strategies but also for making changes to projects in execution.
- 1.14 This first phase of cluster projects also served to assess the technical and innovation capabilities of a very representative sample of project proponents at the regional level. Usually, the institutions that request financing from multilateral agencies are among the institutional leaders in both the tourism sector and other nontourism sectors. In general, their institutional capacities are greater than the general level of other institutions, both public and private. The conceptual and technical barriers encountered by the cluster are representative of those encountered by the sector at the regional level. Accordingly, the solutions identified and applied—or proposed—by the cluster are equally representative of the policies to be applied regionally.
- 1.15 Cluster experience and its analysis similarly show that institutions' requests for support generally involve activities that these institutions usually manage rather well and, in some cases, are their areas of expertise. Nevertheless, it has been shown that, generally speaking, the shortcomings of the sector are ubiquitous at the institutional level, and that they are not addressed or factored into activities owing to ignorance or fear of the unknown. This situation is critical, as it serves to perpetuate gaps that represent the true barriers to sector development. It is therefore

essential to establish mechanisms within the cluster that encourage or force institutions to incorporate the know-how corresponding to these methodological and/or technical gaps and thus ensure that knowledge and practices are equalized across the sector.

- 1.16 **New phase of the Sustainable Tourism Cluster.** While the first action plan (of September 2004) served the purpose of guiding methodological and innovative processes within the cluster during the 2004-2007 period, the evaluation of the cluster conducted in 2007 demonstrated that the typologies that had been defined were not sufficiently clear to serve as a basis for analysis and for dynamic management that continuously adapts to changes in the cluster. As a result, a new project typology with a more detailed classification system was prepared, including methodological steps for developing more focused projects. This new methodology allows all the types of action encompassed in projects and in the cluster in general to be classified. The use of a detailed typological “filter” will produce information for cluster monitoring and will more efficiently guide future project proponents. Moreover, analyzing the typological coverage of projects in comparison with market trends will serve to identify gaps with regard to certain types of actions and will eventually encourage their incorporation in some projects. The best way to apply the new methodology for identification and selection of proposals so as to align priorities and ensure creativity and innovation in projects is to use **calls for proposals**. This method of identifying and selecting proposals will be based on a Typology Matrix that allows all project components and actions to be disaggregated and organized in a database using a common language to allow for benchmarking and cross-fertilization of similar experiences.⁶
- 1.17 **Scalability and leveraging.** As described, the new phase of the cluster would have the knowledge and the tools to act proactively and intelligently. So, in order to capitalize on and promote the lessons learned during the 2004-2007 period, it will seek to **leverage** the funds invested by the MIF and **scale up** those lessons through new operations to other institutions and projects. To this end, efforts will be made to improve coordination with the Bank in loan operations and to seek partnerships with other donors (private and public) so that for each MIF dollar the executing counterpart and other donors contribute at least two additional dollars and, over time, the multiplier reaches four.

⁶ This will enable executing agencies and policy-makers to recognize, and frame their projects within, a broader horizon and a comprehensive, integrating approach so as to bring impact and perspective to proposals. Previously, projects were narrowly focused and maximized the solution of specific problems of limited scope, neglecting the big picture. Using calls for proposals enables stakeholders to dynamically analyze the feasibility of their project, presenting options for interaction at the chain level, their strategic position in the private and public policy framework, synergy with land use plans, and the need to leverage resources so as to have a comprehensive perspective on the problem; in other words, each project will be part of a system of solutions for a system of problems, contributing consciously and measurably to sector development.

- 1.18 In sum, the increasing appreciation seen over the last four years of tourism as a tool for development, poverty reduction, and conservation, both regionally and worldwide, has produced very high demand from initiatives that would like to participate in the MIF cluster. The cluster coordination team will seek the best alternatives and mechanisms to meet this high demand. The new phase of the cluster will be managed proactively and competitively based on past and future knowledge (using methodological tools), ensuring innovation (calls for proposals), leveraging funds and scaling up lessons learned and best practices with strategic partners (the Bank, other donors, governments, private sector, academia), and communicating and disseminating the outcomes to the region's tourism sector.

II. OBJECTIVES AND DESCRIPTION OF THE FACILITY

- 2.1 The **goal** of the Facility is to help increase income, employment, and economic development in the region's sustainable tourism sector. The **purpose** of the Facility is to effectively and efficiently finance individual projects during the 2008-2011 period that support sustainable tourism development, taking into account the lessons learned in the cluster during the 2004-2007 period as well as new partnership and scalability opportunities.
- 2.2 The way that the different components of the proposed Facility are distributed reflects the need for the project portfolio to be managed so as to include activities that enhance the "cluster effect"⁷ and fully guarantee the strategy's potential to produce innovations and duly disseminate them throughout the region. Hence, while most of the funds are allocated to component 1 for implementation of the proposals chosen using the new selection tools, the other components make it possible to ensure innovation and the scaling up of outcomes to the regional level as well as the efficient, methodical dissemination of the knowledge generated. These components represent key tools for the sector, as they integrate, analyze, and make available strategic information for sector development on a larger scale than that usually seen in the cluster (Bank, governments, donors, academia, private sector).
- 2.3 One of the main distinguishing features expected from the new phase of projects is that each one should contribute solutions and knowledge to sector-wide—and not only to project-level—problems and obstacles.
- 2.4 **Component 1: Project financing (MIF: US\$10 million; counterpart: US\$20.9 million).** The purpose of this component is to finance innovative proposals, which will be selected through a competitive process by means of at least one call for proposals per year, pursuant to specific selection criteria set out in the Facility's operating regulations. Some 20 projects are expected to be selected during the 2008-2011 period, for an average of US\$500,000 (leveraging at least two

⁷ The term "cluster" is used to refer to an organization involving the integrated interaction of executing agency directors, project coordinators, technical specialists, the cluster coordination team, and various public and private institutions that provide strategic and operational support.

- additional dollars for each dollar invested), with the counterpart contribution coming from the executing agencies, other donors, governments, or private companies.
- 2.5 In addition, MIF resources will be used to finance technical assistance projects, including: (i) advisory services to close any gaps in the tourism product development cycle, in projects being executed in the cluster or new projects; and (ii) advisory services for financing the design components of Bank or other donors' loan operations related to the SME private sector. In either case the amount of the technical assistance projects will be less than US\$30,000 and will be administered directly by the cluster coordination team.
- 2.6 **Component 2: Facility support, partnership-building, and leveraging of funds (MIF: US\$340,000; counterpart: US\$0).** The purpose of this component is to finance the following activities: Facility promotion, participation of technical experts on a selection panel, the design of processes and of the platform⁸ for web-based processing of proposals, training of experts collaborating in project analysis and design, participation in conferences and workshops with other donors, and the development of strategic partnerships and agreements to leverage MIF funds.
- 2.7 **Component 3: Information management and knowledge-building (MIF: US\$130,000; counterpart: US\$150,000).** The purpose of this component is to strengthen the capacity to compile and manage the information produced during the cluster cycle by systematizing the processes of technical and methodological evaluation of present, past, and future actions. The component would therefore finance the design and implementation of an information management system based on a set of technology resources (georeferenced databases, networks) that take full advantage of the existing information management systems at the Bank and make it possible to compound the effects of the information generated by the projects. The Facility will build on all the activities currently carried out by the MIF in the area of innovation and knowledge management.
- 2.8 With this system it will be possible to monitor cluster management, systematically analyze outcomes, evenly and methodically distribute impacts, and facilitate the sharing of experiences with all the projects in the cluster and with different audiences. This system will have a modular design, allowing for its functions to be extended to other clusters and Bank initiatives.
- 2.9 This component includes the development of a baseline that will define in depth the relevant indicators and how they are to be weighted, as well as a midterm and final evaluation of the Facility to be conducted by an outside entity independent of the MIF.
- 2.10 Processing the data produced will generate information relevant to and representative of the sector and will help to identify needs and new proposals and to

⁸ Adaptation of the one used by the ICT4BUS program.

monitor the adjustment of MIF and Bank sector strategies and policies. The system will allow knowledge, including technical documents and feedback for the projects and MIF/IDB specialists, to be created, organized, and disseminated in real time.

- 2.11 **Component 4: Knowledge dissemination (MIF: US\$253,000; counterpart: US\$335,000).** The purpose of this component is to design information and communication tools that serve to centralize technical and methodological information on management of project and product cycles alike, and to produce publications containing newly generated knowledge. Activities to be financed include: bilingual, online quarterly *Sendas/Paths* newsletter on the MIF website; a methodological manual for the identification and design of sustainable tourism projects for MSMEs in the Latin America and Caribbean region; annual workshops led and organized entirely by the hosts; enrichment and maintenance of the Virtual Learning Community launched at the annual cluster workshop in April 2008, which involves the participation of beneficiaries and executing agencies in the cluster, MIF specialists, and sector actors; an international seminar on good practices for the identification, design, and execution of sustainable tourism projects; at least four regional training workshops on identified technical and methodological weaknesses or needs at the cluster level.
- 2.12 A special, central role will be given to executing agencies, actors, and specialists that have developed good practices. There will be at least eight technical good practice visits with executing agencies and MIF specialists, and an online database with at least 45 documented and ready-to-use good practices. Each of these good practices will enable project proponents, designers, and executing agencies to obtain practical information to fill their methodological and technical gaps by following the product cycle approach agreed on for the cluster in the future.
- 2.13 A series of seminars will be organized by the MIF but led by benchmark institutions on topics such as “tourism and _____” (communication, new technologies, access to financing, innovation, applied geography, conservation, inclusive businesses, differentiation and promotion of destinations, private/public management, academia, etc.).
- 2.14 Contests will be held for executing agencies to write up success stories that can later be used by specialized media through agreements for audiovisual and print documentary coproductions (video documentaries, specialized podcasts) with audiovisual communication companies and major international media outlets (National Geographic, Discovery Travel, etc.). Notably, the MIF sustainable tourism cluster currently encompasses the largest number of sustainable tourism services and products in the region. This quantity of destinations and products, all sustainability-oriented, represents very attractive content for specialized media outlets.
- 2.15 **Conclusion.** New projects will benefit from the experience gained through work done in the cluster to date and will ensure complementary contributions of knowledge. The projects in the new phase of the cluster will fill the gaps found in

the sector's value chain, which pose major barriers to sector development. The new (proactive and intelligent) methodology for identifying and selecting proposals and the way in which new projects are designed (typological classification, use of the product cycle) and monitored (indicators for each type of priority impact activity) will make each new project an important contribution to the cluster and to the sector in the Latin American and Caribbean region. Lastly, communicating what is learned will help keep the cluster at the forefront of innovation and knowledge generation.

III. COST AND FINANCING

- 3.1 The proposal is to allocate resources for the Facility in the amount of US\$10,800,000 for the 2008-2011 period, to be financed with resources from the Multilateral Investment Fund on a nonreimbursable basis. The executing agencies will contribute US\$8,750,000 and the other donors US\$12,635,000, for a total of US\$32,185,000. The duration of the Facility will be 42 months.
- 3.2 Evaluation committees⁹ will review and select the winning proposals and the information will then be provided to the Donors Committee. This type of proactive strategy ensures consistent attention to all the stages of product development as well as, *inter alia*, balanced attention in geographical terms. This, in turn, allows for continuous evaluation of how cluster resources are distributed based on types of actions, with a view to achieving economies of scale, complementarity, and knowledge transfer among participants.

Budget categories	MIF US\$	Counterpart Executing Agencies US\$	Counterpart Other US\$	TOTAL US\$
Component 1. Project financing	10,000,000	8,750,000	12,150,000	30,900,000
Component 2. Facility support, partnership-building, and leveraging of funds	340,000	-		340,000
Component 3. Information management and knowledge-building	130,000	-	150,000	280,000
Component 4. Knowledge dissemination	253,000	-	335,000	588,000
Subtotal	10,723,000	8,750,000	12,635,000	32,108,000
Contingencies	77,000			77,000
Total	10,800,000	8,750,000	12,635,000	32,185,000
Percentage	34%	27%	39%	100%

⁹ Consisting of MIF country specialists for the institutional analysis of executing agencies; outside specialists for the initial technical appraisal; and cluster, MIF, and Bank staff for the final approval.

IV. PROJECT EXECUTION

- 4.1 The MIF tourism cluster coordination team will have technical responsibility for supervising Facility implementation. The MIF specialists at the Country Offices will have administrative responsibility (technical and financial supervision) for individual projects.
- 4.2 For project selection, each call for proposals will include the following stages: (i) registration of proposals to determine if the institution is eligible under the Facility; (ii) evaluation of profiles, with the most promising projects being selected by a panel of independent experts named by the MIF; (iii) evaluation of those proposals by an internal MIF and Bank advisory panel for final selection of the winning projects; (iv) submission of those projects to the Donors Committee for its approval via the short procedure; and (v) preparation of letters of commitment (from executing agencies and donors) to provide the counterpart contribution.
- 4.3 Throughout the process, the MIF specialists at Headquarters and at the Country Offices will have access to the information being generated during the selection process and may offer their opinions with respect to the suitability of the executing agency, relevance of the project to sector needs, and the MIF/private sector strategy in each country. MIF specialists will supervise and administer the individual projects, with support from the cluster coordination team.
- 4.4 The institutions eligible to submit proposals include: nonprofit associations of sector enterprises; public-private tourism promotion entities representing business interests; and public sector institutions involved in regulating the sector and, in general, nonprofit institutions in Latin America and the Caribbean with experience working with MSMEs or in sustainable tourism development. The preparation and processing of individual projects will follow the guidelines, policies, and procedures of the Bank/MIF applicable to nonreimbursable technical-cooperation operations, subject to the content of this document.
- 4.5 This Facility has taken into account¹⁰ the lessons learned from the ICT4BUS Facility, which is part of the MIF's information and communication technology cluster, including: establishing mechanisms to encourage quality proposals; instituting transparent processes to ensure recognition and credibility of the Facility; proactively promoting the Facility to reach executing agencies that would not normally approach the MIF; involving recognized experts in the selection of proposals; having a large number of proposals, to be able to select the best ones in a short period of time and at a low cost; having MIF specialists involved in identifying and analyzing projects; decentralizing operational (technical and financial) supervision once the projects are approved; and ensuring that supervision is based on attaining outcome indicators. Therefore, to the extent possible, the

¹⁰ Consulting assignment carried out in November and December 2007.

necessary administrative procedures will be introduced to make disbursements contingent on outcomes.

- 4.6 The technical files include the Facility's Internal Operating Regulations, which describe in detail the various processes and who is responsible for them in each case.

V. MONITORING AND EVALUATION

- 5.1 **Supervision and monitoring.** The MIF cluster team will supervise and monitor the Facility. Component 3 calls for midterm and final evaluations of the Facility, as well as for presentations to the Donors Committee and other audiences on progress in its implementation. The evaluations will be conducted by a specialized consultant to be selected and hired directly by the Bank. The first evaluation will be commissioned once 50% of the total has been disbursed or when 24 months have elapsed since the first disbursement, whichever happens first. The final evaluation will be conducted once 90% of the contribution has been disbursed, or three months prior to the deadline for the last disbursement, whichever happens first.

VI. BENEFICIARIES AND RISKS

- 6.1 Given the explosion of the tourism sector in the last four years in Latin America and the Caribbean and the world, demand from initiatives that want to participate in the MIF cluster is very high. The cluster coordination team will seek the best alternatives and mechanisms to meet this high demand. The new phase of the cluster will be managed proactively and competitively based on past and future knowledge (using methodological tools), ensuring innovation (calls for proposals), leveraging funds and scaling up lessons learned and best practices with strategic partners (the Bank, other donors, governments, private sector, academia), and communicating and disseminating the outcomes to the region's tourism sector.
- 6.2 The cluster will continue to benefit locally-owned MSMEs that are located in destinations where there is already a critical mass of supply along with a certain flow of demand, but which, due to a lack of experience and resources, require support to achieve more professional management and better organization to be more competitive, diversify their offerings, and effectively reach new markets. However, the new phase of the cluster will place greater emphasis on projects from less developed countries, and will seek to benefit the poorer local populations that live near commercially viable tourist attractions. Emphasis will be given to MSMEs and local communities and inhabitants that are poor, but have the potential to join the sustainable tourism sector's value chain as providers of tourism and nontourism services. An effort will be made to specifically benefit rural, native, and indigenous communities, thereby helping to keep them rooted to their land and avoiding the social ills attending their migration to the cities.

- 6.3 **Risks.** The principal risk lies in securing the counterpart commitment needed to leverage MIF financing as proposed. To mitigate this risk, the cluster coordination team and the MIF Management will seek framework agreements with other donors that ensure an adequate flow of counterpart resources.

VII. SOCIAL AND ENVIRONMENTAL IMPACT

- 7.1 This Facility will support economic activities and initiatives related to the sustainable use of both cultural and natural tourist attractions. Such use bases its economic sustainability on the care and maintenance of the quality of these attractions, creating a proven virtuous circle by functionally connecting heritage preservation with the production system. The Facility bases its operational strategy on sustainable tourism criteria and trends that are induced and recognized by the market.
- 7.2 Each project financed under this Facility will be submitted to the Environmental and Social Review Committee (ESR) for evaluation and approval. In addition, to mitigate any negative impact, the cluster coordination team will include strict selection criteria to ensure that the activities executed under the projects adhere to rules for preservation of the environment and cultural and social setting and comply with the IDB's environmental and social safeguard policies. The MIF exclusion list will also apply. In order to guarantee this, a member of the ESR will be included in the cluster committee that will be formulating the aforementioned criteria. The classification of this operation is ENV/TOUR. This Facility has been classified as a category "C" operation. This project has also been classified as a category "C" operation and was accepted by the ESR on 2 June 2008.