

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**DOMINICAN REPUBLIC**

**SOCIAL ENTREPRENEURSHIP PROGRAM (SEP)**

**SUSTAINABLE FAMILY-BASED ECOTOURISM**

**(DR-S1001)**

**PROPOSAL FOR FINANCING AND TECHNICAL-COOPERATION FUNDING**

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## I. BASIC PROJECT INFORMATION

### A. Executing agency

- 1.1 The Asociación para el Desarrollo de la Provincia Espaillat, Inc. (ADEPE).

### B. Amount and source of financing

ITEMS	IDB US\$	Local US\$	Total US\$
1. Financing component:	520,000	155,000	675,000
2. Technical-cooperation component:	145,000	113,000	258,000
<b>Total US\$</b>	<b>665,000</b>	<b>268,000</b>	<b>933,000</b>

The resources come from the Italian Trust Fund for Microenterprise Development.

### C. Terms and conditions

Amortization period:	10 years
Grace period:	4 years
Interest:	5% annual real
Currency:	Pesos Dominican Republic

- 1.2 The Bank financing will consist of a loan and technical-cooperation funding. The reimbursable financing component of US\$520,000 will be executed over 48 months and disbursed over 54 months. The technical-cooperation component, in the form of nonreimbursable funding of US\$145,000, will be executed over 48 months and disbursed over 54 months.

### D. Declaration of nonobjection

- 1.3 ADEPE has submitted to the Bank a request for reimbursable financing and technical-cooperation funding under the Social Entrepreneurship Program. In official letter S.T.P. 276 of 12 October 2004 from the Technical Secretariat of the Office of the President, the Government of the Dominican Republic indicated its nonobjection to Bank financing of this operation.

### E. The problem to be resolved

- 1.4 **Socioeconomic framework.** The tourism sector in the Dominican Republic is very important. It grew steadily, receiving considerable investment, over the last 10 years. According to figures on tourism, the country received 2,567,380 foreign

visitors in 2002; in 2003 the figure increased to 2,762,520 tourists. Places such as La Romana, Punta Cana, and Puerto Plata account for 82% of tourist traffic. A high concentration in beach tourism, operated by multinational chains offering “all-inclusive” packages, brings **very little in the way of backward linkages with the domestic economy, limiting the ability of local economies to tap into and benefit from the growth in this flow of resources to the country.**

- 1.5 In order to draw tourists to other local alternatives, the Asociación para el Desarrollo de la Provincia de Espaillat (ADEPE)<sup>2</sup> and 20 communities are investing in the development and dissemination of ecological tourism in the subregion of the northern mountain range known as the Jamao river basin, in the provinces of Espaillat and Salcedo. The information collected by ADEPE in an earlier effort to make an assessment in the area covered by the proposal shows that there is a segment of the tourist flow interested in ecotourism, especially in new recreation venues, such as mountain tourism, wildlife watching, and visits to caves and rock art. The province has had approximately 480,000 visitors this year. The hotel infrastructure in the province of Espaillat includes 1,000 rooms,<sup>2</sup> whose average annual occupancy rate is 75%. **The official data indicate that nature tourism drew 436,455 tourists in 2002, and 469,628 in 2003.**
- 1.6 As for promoting the new destination, ADEPE has received a mandate from its members to carry out the following actions: (i) contact specialists involved in the tourism sector; (ii) participate in tourism fairs and shows; (iii) take part in the environmental trade fair in Santo Domingo; (iv) sign agreements with various entities involved in the ecotourism route; and (v) invest in the establishment of an ecotourism training center. ADEPE is fostering audiovisual promotion activities, graphic murals, photographs, and distribution of illustrated brochures, showing the cultural attributes and natural beauty of the local geography. In addition, the Secretariat of Tourism is becoming involved in the project.
- 1.7 Nonetheless, in order to develop ecotourism activities, the microentrepreneurs and small businesspersons from the communities in the area grouped under ADEPE must solve the following problems:
  - (i) **The lack of skills on the part of small entrepreneurs limits the development of tourism services.** Without the knowledge and skills to comply with the minimum quality standards required in gastronomy, hygiene, and safety, it will be very difficult to offer competitive and sustainable tourism.

<sup>2</sup> ADEPE has 5,000 members grouped in: (i) 107 associations of agricultural microproducers; and (ii) two artisans' associations. Its members include local microproducers of fruits, vegetables, honey, and crafts, who will become the main suppliers of the small family ecotourism hostels.

<sup>2</sup> Based on the information provided by the National Association of Hotels and Restaurants (ASONAHORES) and the Bahía Príncipe Vacation Center in San Juan, this center alone has 941 rooms and receives approximately 250,000 tourists a year.

- (ii) **The lack of overall organization (integrated supply).** The lack of easily accessible material for publicizing the potential and main features of the provinces of Espailat and Salcedo together diminishes the effectiveness of the supply and promotion of the area as a new venue for mountain tourism, wildlife watching, cave visits, and rock art.
  - (iii) **The lack of sustainable management of environmental resources.** At present, the communities do not know how to prevent and manage impacts that are undesirable if they wish to attract more tourists, mainly related to proper solid waste and wastewater disposal.
  - (iv) **Insufficient financing** for investment in infrastructure (e.g. establishing small networks of hostels, inns, crafts centers, and small museums). Moreover, a lack of working capital limits the supply of facilities of a quality acceptable to tourists, hindering the integration of microproducer units into the ecotourism chain.
- 1.8 **Beneficiaries.** The direct beneficiaries of the project are about 54 rural families in the 26 communities of the provinces of Espailat and Salcedo. The families to be reached by the project have five to six members each, with average annual family incomes of US\$1,797. Given that the economic impact extends to the entire family, it is estimated that at least 500 people will benefit directly.
- 1.9 Eligibility criteria: (i) Micro and small enterprises, members of the Comité de Manejo de la Cuenca del Río Jamao Inc. (CMCJ: Jamao River Basin Management Committee)<sup>3</sup> who will be willing to participate in education and training activities (workshops, courses, talks, seminars, etc.); (ii) situated along the ecotourism route to be established; (iii) the housing should meet the conditions needed for conversion to a Family Ecotourism Hostel (Albergue Ecoturístico Familiar); (iv) the owner must be prepared to make an investment of 25% for construction; and (v) for financing, an aval must be obtained from the person responsible for the sectoral committee, ratified by CMCJ Inc.

## II. THE PROJECT

### A. Objectives

- 2.1 The general objective of the project is to improve the quality of life and increase the incomes of microenterprises and small rural enterprises in communities in the Jamao river basin.

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<sup>3</sup> The CMCJ is made up of 80 grassroots associations organized into 17 sectoral committees.

- 2.2 The specific objectives are: (i) to foster the participation of the private sector to establish 50 hostels with lodging for two hundred (200) people, and four (4) recreational units for rest or “paradores” (inns) in order to add to national tourism product through this pilot model; (ii) to improve access to credit for the microenterprises and small rural enterprises; (iii) to improve the skills of small entrepreneurs in administration, for the sound management of tourism services; (iv) to foster and market ecotourism, through ADEPE; (v) to help improve the environmental quality of the tourism areas chosen; and (vi) to create 500 new jobs for members of the local communities.

## **B. Description**

- 2.3 The project will support the start-up of a pilot program for supplying integrated sustainable ecotourism. The resources of the financing will facilitate access to credit for fixed assets and working capital for at least 54 microenterprises and small rural enterprises for the first four years. The project will help generate income by marketing the new ecotourism route and will create 500 new jobs.

### **1. Reimbursable financing component (IDB: US\$520,000; ADEPE: US\$155,000)**

- 2.4 This component will facilitate investment in infrastructure and equipment for the family ecotourism hostels and inns, without gender discrimination, and the establishment of an Ecotourism Management Training and Business Development Center (CECADEM: Centro de Capacitación Gerencial y de Desarrollo Empresarial del Ecoturismo) in ADEPE. The remaining resources will be earmarked for working capital. The counterpart funding for this component will be put up by the beneficiaries, ADEPE and COOP-ADEPE. The latter has already signed an agreement with ADEPE to secure the counterpart funds.
- 2.5 **Subcomponent: Direct investment in infrastructure and equipment for the CECADEM in ADEPE (US\$200,000).** The purpose of this investment is to adapt and provide the resources needed for starting up an Ecotourism Business Development Training Center (CECADEM) in ADEPE. This subcomponent will enable ADEPE to set up the CECADEM and to purchase the equipment needed for training the beneficiaries (kitchen and food preparation equipment for the hostels and inns, training in hygiene and safety, and teaching materials for business development training). The funds from this subcomponent will be administered by ADEPE.
- 2.6 **Subcomponent: Credit for investments in infrastructure of the hostels and inns (US\$360,000).** The purpose of this investment is to establish a network of 50 hostels and four inns by the project beneficiaries. The hostels and inns constructed each year will be directly related to the ecotourism route proposed to the potential beneficiaries, and must be along the same ecotourism route. In this

way, a series of hostels and inns will be developed in the beneficiary communities for this specific region.

- 2.7 **Subcomponent: Credit for working capital (US\$115,000).** This subcomponent will make it easier for the hostel and inn operators to access credit for the purchase of supplies.
- 2.8 The Bank will disburse the loan resources to ADEPE, which will be fully responsible for repayment to the Bank. As ADEPE is not a lending organization, it will sign an agreement with COOP-ADEPE for administering the subcomponents of credit, hostel and inn infrastructure investment, and credit for working capital. COOP-ADEPE, in turn, will onlend these resources to the beneficiaries of the project, depending on financing requirements, at a rate of 24% per annum in Dominican pesos. COOP-ADEPE will receive a 3% fee for administering the beneficiary loan portfolio. COOP-ADEPE's markup for intermediation will breakdown as follows: 5% to cover the cost of Bank funds, 6% as a loan-loss provision, 3% for profit, and 7% to cover operating costs.

**2. Technical-cooperation component (IDB: US\$145,000; ADEPE: US\$113,000)**

- 2.9 The technical-cooperation (TC) component will target the following subcomponents: (a) training and technical assistance on issues relating to ecotourism; (b) business organization of the hostels and inns; (c) assistance with sustainable management of environmental resources; and (d) evaluations and audits.
- 2.10 The main activities of the TC will be: (i) to design the model family ecotourism hostels that will be built in the communities; (ii) to establish a model family ecotourism hostel;<sup>4</sup> (iii) to train the beneficiaries in business development (gastronomy, customer care, recreation and cultural activities, training of tourist guides, business management, safety and hygiene); (iv) to organize and market the ecotourism product, through ADEPE, including the hiring of a marketing expert, to implement an information system (IS), and to participate in trade fairs; (v) to train the beneficiaries in the sustainable management of environmental resources; and (vi) to monitor, evaluate, and control the operations and the use of the resources.
- 2.11 ADEPE's contribution in the technical-cooperation component will cover, among other things, part of the costs of the trainers in business development and safety and hygiene. It also includes covering part of the costs of the model family ecotourism hostel, engaging an expert in marketing and a consultant in IS, participation in trade fairs, and publication of the promotional magazine. In addition, it will cover part of the cost of the environmental management specialist. A midterm and final project

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<sup>4</sup> The resources from the TC will contribute up to US\$1,500 for this item.

evaluation will be performed, the cost of which will be charged to the nonreimbursable TC component.

**C. Sustainability and results of the financial analysis**

- 2.12 **Sustainability.** In terms of the operators, the project will have a direct and favorable impact by improving the quality of life, boosting productivity, and steadily increasing incomes. These three factors will result in higher and sustainable incomes for the 500 new jobs created by the end of the project for the project beneficiaries. The viability of the project turns mainly on: (i) training the staff of the hostels and the inns; (ii) the joint marketing and promotion of the ecotourism route, through ADEPE; (iii) the establishment of an environmental management program; and (iv) the operational sustainability of the CECADEM in ADEPE, which will be covered by a fee for the services provided.
- 2.13 ADEPE also has wide-ranging practical experience in project implementation, which is a strength of this project and ensures its sustainability. For 29 years, ADEPE has assumed responsibility for coordinating with the communities in the province in all actions that contribute to improving the economic, social, and human environment, identifying community priorities so as to demand and offer effective responses.
- 2.14 The organization of the hostels and inns into an integrated series of hostels and inns along the ecotourism route is the key factor in the project. Here, ADEPE will have a leading role in organizing the facilities and entering into agreements with national and international tour operators, and establishing strategic partnerships among different private groups, community groups, official entities in the provinces of Espailat and Salcedo, the municipal governments, and the communities at the district level. Among the organizations involved in the ecotourism route with which agreements have been signed are the local government of Moca, the local government of Gaspar Hernández, the local government of Jamao del Norte, and the district boards of Veragua, Joba Arriba, San Víctor, Las Lagunas, José Contreras, Higüerito, Juan López, Ortega, and Monte de la Jagua. Agreements were also signed with the Secretariat of the Environment and the Universidad Tecnológica de Santiago (UTESA). Still pending signature are agreements with the local government of Cayetano Germosén, tour operators, and the Secretariat of Tourism, which is crucial and a condition precedent to disbursement of the technical-cooperation funding.
- 2.15 The investment, organization, and start-up of the CECADEM in ADEPE, the hostels, and the inns, with proper capitalization, health permits, and internationally accepted quality standards, will facilitate the marketing of the ecotourism facilities in conditions that strike a balance in the breakdown of costs and benefits along the entire production chain.

- 2.16 **Results of the financial analysis.** The financial viability of the project is based on: (i) the profitability of the FEH operators; and (ii) the direct results of the overall ecotourism facilities by the hostels and inns. For example, it is estimated that an average operator who administers an FEH, with his family of 6 or 7 members, can increase his or her annual income by more than US\$4,955 in the fourth year of operation. This would mean additional net income of more than US\$247,750 annually for a group of 50 operators of hostels and four inns. Revenue and cost projections, from the standpoint of ADEPE, show that the project has excellent prospects of generating higher incomes for the various stakeholders, and sufficient revenue for repayment of the Bank financing.
- 2.17 The loan portfolio established with the reimbursable project funds will produce surpluses to cover the operating and financial costs of the loan, as well as profits to increase the flow of loan funds from COOP-APEDE to the project beneficiaries. ADEPE successfully executed two small Bank projects and set up the Cooperativa de Ahorro y Crédito COOP-ADEPE (COOP-ADEPE credit union). It is current with its obligations to the Bank.

**D. Expected outcomes and capture of benefits**

- 2.18 The project will make it possible to obtain the following outcomes for the beneficiaries: (i) improving access to credit; (ii) optimizing technical and administrative skills for sound management of tourism services; (iii) increasing sales with the joint marketing of the ecotourism product, through ADEPE; (iv) increasing the environmental quality of the tourism areas selected; and (v) creating 500 new jobs for people living in the local communities.
- 2.19 The logical framework and performance indicators for the project showing the expected project outcomes are available in the technical files.

**E. The Bank's strategy and the project**

- 2.20 The Government of the Dominican Republic launched the National Competitiveness Program (PCN) in 2003, with the objective of designing and implementing competitive strategies in the country's key productive sectors. The Bank approved a loan program for the development of competitive advantages (document DR-0152), which is aimed at strengthening the institutional mechanisms and developing dialogue between the public and private sectors so as to develop the country's competitive advantages. This project fits within that program and seeks to foster the diversification of tourism, tapping the natural resource base to develop sustainable community-based ecotourism. The project's direct beneficiaries are low-income agricultural microproducers and small farmers, artisanal furniture makers, and beekeepers in the rural area.



**F. Cooperation with other international development agencies**

- 2.21 In meetings with representatives of the European Union (EU), it was established that the EU, through the PROEMPRESA project, which it is carrying out in the Dominican Republic, will assist the project by covering a percentage of the costs of training the hostel and inn operators.

**G. Summary of the environmental and social review**

- 2.22 The Committee on Environment and Social Impact (CESI) reviewed this operation on 2 July 2004. It recommended that steps be taken to ensure that the resources not be used beyond their carrying capacity, and that there be proper disposal of the solid waste and wastewater generated by the project. It also recommended that the project ensure equal opportunities for women.
- 2.23 ADEPE has agreed to hire an environmental specialist for ongoing monitoring, training for beneficiaries and staff of the hostels and inns, and evaluation of the environmental impacts during each phase of the project. The specialist will be covered out of technical-cooperation funding. In addition, the monitoring indicators have been confirmed and analyzed. ADEPE will use these indicators to monitor: (i) the application of environmental prevention measures for classification and disposal of solid and liquid waste (in the communities, the hostels, and the inns); (ii) inter-agency environmental agreements with the Secretariat of the Environment (Secretaría de Estado de Medio Ambiente), five local governments in the province of Espaillat, and 11 district boards; and (iii) access to technical assistance and credit without gender discrimination.

**H. Special conditions**

- 2.24 As a condition precedent to the first disbursement of resources from the reimbursable financing, ADEPE will submit, to the Bank's satisfaction: (i) the plan for implementing the ecotourism route envisaged for the first stage in year one of the project; (ii) evidence that the financing agreement between ADEPE and COOP-ADEPE is in force; and (iii) the definitive Credit Regulations, which include the penalties, rules, and quality standards for managing the hostels and inns to be financed by the loan resources.
- 2.25 As conditions precedent for the disbursement of the resources from the technical-cooperation funding, ADEPE shall submit to the Bank's satisfaction: (i) the model FEH installed, for training the beneficiaries; (ii) an inter-agency agreement between ADEPE and the Secretariat of Tourism that should include, as a minimum, the commitment by the latter to provide support for promoting the new tourist destination through its tourist information media and through its tourism office in the province, and advisory assistance in meeting the technical requirements for certification by the regulatory agency for the ecotourism industry; and (iii) a plan

for implementation that includes annual goals for attaining the project objectives and outcomes.

- 2.26 At the outset of the project, the technical-cooperation funding will be used to finance the preparation of the project beneficiaries' baseline, which should be completed before 20% of the technical-cooperation funding has been disbursed.
- 2.27 The Bank will not authorize more than 10% of the financing of each component to be disbursed until the results of the marketing strategy have been submitted showing the viability of the project concept, and the demand for the type of services to be offered. For more than 50% of the resources of the technical-cooperation funding to be disbursed, ADEPE must demonstrate to the Bank that at least 30% of the reimbursable financing component has been disbursed for investment in infrastructure.

## **I. Reports, evaluations, and audits**

- 2.28 **Reports.** ADEPE will submit *progress reports* to the Bank's Country Office in the Dominican Republic within 60 days after the end of each six-month period, with a final report 60 days after the deadline for the last disbursement. In the first progress report, the subloan model contract between COOP-ADEPE and the credit subcomponent beneficiaries will be submitted, as will a plan for implementing the marketing strategy with outcome indicators. The strategy must be consistent with the promotion activities of the Secretariat of Tourism, and should present evidence of demand for the hostel model financed by the project. The first report should also include the evolution of the project baseline data. In addition, the reports must include an analysis of the extent to which the performance indicators have been fulfilled and the progress attained in executing the work plan, including: (i) the use and administration of the reimbursable financing component resources, with emphasis on the progress in building the hostels and inns, and the adaptation of the CECADEM; (ii) the number of loans to the microentrepreneurs, and the interest rates charged; (iii) COOP-ADEPE's consolidated financial statements and performance indicators in other loans; (iv) the intermediation spread charged the project beneficiaries and those charged by other cooperatives within the local microcredit segment; (v) the development of training and technical assistance programs for standardizing and certifying the hostels and inns; (vi) the number of hostels and inns certified with quality standards; (vii) a report on the operation of the CECADEM in ADEPE; (viii) the degree to which the project has incorporated the hostels and inns into the ecotourism route; (ix) monitoring of the environmental indicators and gender issues in the project; and (x) a summary of the contribution in cash and in kind by ADEPE and COOP-ADEPE as of the date of each report.
- 2.29 **Evaluations.** The Bank will use resources from the technical-cooperation funding to commission a midterm and a final evaluation of the project. When 50% of the loan component has been disbursed, or when the 24<sup>th</sup> month of project execution has elapsed, whichever comes first, a midterm evaluation will be performed,

contracted by the Bank, to measure: (i) gains in productivity and incomes of the microentrepreneurs running the hostels and inns from the initial situation; (ii) the level of participation by the beneficiaries and the quality of the services offered; (iii) progress in attaining the project objectives; and (iv) the lessons learned and recommendations for improving the project.

- 2.30 Once 48 months of execution have passed and 90% of the financing has been disbursed, there will be a final project evaluation, to measure and document: (i) the level of participation and the effects of the project on the groups studied in the initial evaluation; (ii) the extent to which the project objectives have been fulfilled; and (iii) the lessons learned from the project.

- 2.31 **Audits.** A final audit of the project will be financed from the Bank's contribution.

## **J. Risks**

- 2.32 The greatest risk is that the ecotourism product offered will not have any demand in the market. While ADEPE has established the goals for marketing the project, based on its prior experience, market studies, negotiations with potential operators, and conservative projections, this risk will be mitigated through its strategy of establishing partnerships with national and international companies, developing the infrastructure by phases, which will be accompanied by intense training to offer new quality tourism services. This will necessarily require a new segmentation, different from beach tourism. The ability of ADEPE to develop commercial partnerships with the tour operators nationally and internationally, and to promote the ecotourism product, will be strengthened with the technical-cooperation funding, which ADEPE will use to engage a marketing expert.
- 2.33 The second risk would be politicization of the project, owing, among other things, to the strategic siting of the hostels and inns along the ecotourism routes. To mitigate this risk, ADEPE is to establish a technical committee for selecting the ecotourism route, and the hostels and inns. The committee members will be professionals involved in the project (ADEPE, the CMCJ, and municipal governments).
- 2.34 A third risk is that the hostels and inns would administer their lines of credit improperly, diverting them to activities that have nothing to do with ecotourism. To mitigate this risk, COOP-ADEPE will sign a loan agreement with the operators of the hostels and inns, which will specify the conditions tied to it. In addition, ADEPE will be the organization providing support for the joint promotion and marketing of the ecotourism routes. To this end, the executing agency will strictly scrutinize, on an ongoing basis, the hostels' and inns' adherence to quality standards. The project activities will also be monitored by the CMCJ.
- 2.35 A fourth risk is the likelihood that the hostels and inns will not meet the minimum quality standards. To mitigate this risk, ADEPE will sign adhesion contracts with

the Secretariat of Tourism for standardizing and certifying the services offered by the hostels and inns. To minimize this risk and ensure compliance with the quality standards, ADEPE will stipulate and include, in the Credit Regulations with COOP-ADEPE, the quality standards and the penalties for those hostel and inn operators who do not comply with the quality requirements.

- 2.36 A fifth set of risks stems from the country's macroeconomic situation. In 2004 the government's economic program experienced major fiscal and monetary distortions, which led to the suspension of a stand-by agreement (SBA) with the IMF. The main sources of macroeconomic instability in the short run include: (i) a fiscal deficit which, so far in 2004, is already greater than the targets for the year as a whole; and (ii) the quasi-fiscal deficit of the Central Bank of the Dominican Republic (BCRD), which is more than 10% of GDP. The project does not have instruments for minimizing these risks; but it is felt they will be mitigated once the country signs a new agreement with the IMF.
- 2.37 The last risk is related to the persistent vulnerability of the banking sector, following three commercial bank failures in 2003. While this type of risk is beyond the scope of the project, the Bank is supporting institutional reforms to improve governance in the financial sector and increase the effectiveness of supervision of financial institutions.

**K. Exceptions to the Bank's policy**

- 2.38 None.