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From: The Secretary
Subject: Brazil. Proposal for a loan for an ecotourism development project for the Mata Atlántica Region in the State of São Paulo

Basic Information: Borrower State of São Paulo
Amount up to US\$9,000,000
Source Single Currency Facility of the Ordinary Capital

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Remarks: This operation was included in the country strategy update, approved by the Board of Executive Directors on 22 June 2005 (see document GN-2250-6), and its amount does not exceed the ceiling established for Group A countries.

References: GN-1838-1(7/94), DR-398-5(5/03)

Other distribution: Representative in Brazil

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**ECOTOURISM DEVELOPMENT PROJECT
FOR THE MATA ATLÂNTICA REGION
IN THE STATE OF SÃO PAULO**

(BR-L1013)

LOAN PROPOSAL

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Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Active portfolio	http://ops/approvals/pdfs/BRen.pdf
Procurement plan/means of verification	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=611270
Information available in project files	http://ops3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=545306

ABBREVIATIONS

AWP	Annual work plan
EIRR	Economic internal rate of return
FF	Fundação Florestal [Forest Foundation]
HDI	Human Development Index
IF	Instituto Florestal [Forest Institute]
KFW	Kreditanstalt für Wiederaufbau (German Development Bank)
LRF	Lei de Responsabilidade Fiscal [Fiscal Responsibility Act]
M&E	Monitoring and Evaluation
MICT	Brazilian Ministry of Development, Industry and Foreign Trade
MTUR	Brazilian Ministry of Tourism
NCR	net current revenue
O&M	Operation and maintenance
OSCIP	Public interest civil society organization
PCU	Project Coordination Unit
PECB	Carlos Botelho State Park
PEIB	Ilhabela State Park
PEIC	Ilha do Cardoso State Park
PEIV	Intervalles State Park
PEJ	Jacupiranga State Park
PETAR	Upper Ribeira State Tourist Park
PPMA	Atlantic Forest Conservation Project (KfW)
PPMR	Project performance monitoring report
SECI	Institutional capacity appraisal system
SIAFEM	Financial management system for Brazilian state and municipal governments
SMA	Department of the Environment

PROJECT SUMMARY

BRAZIL ECOTOURISM DEVELOPMENT PROJECT FOR THE MATA ATLÂNTICA REGION IN THE STATE OF SÃO PAULO (BR-L1013)

Financial Terms and Conditions ¹				
Borrower: State of São Paulo			Amortization period:	25 years
Guarantor: Federative Republic of Brazil			Grace period:	4 years
Executing agency: São Paulo State Department of the Environment			Disbursement period:	4 years
Source	Amount (in US\$)	%	Interest rate:	LIBOR
IDB (Ordinary Capital)	9,000,000	60	Inspection and supervision fee:	0%
Local	6,000,000	40	Credit fee:	0.25%
Total	15,000,000	100	Currency:	U.S. dollars
Project at a glance				
<p>Project objectives:</p> <p>The goal of the project is to develop the project area's sustainable tourism potential as a conservation strategy for the Atlantic Forest (Mata Atlântica) region and to help further its socioeconomic development.</p> <p>The purpose of the project is to establish and strengthen nature conservation units as tourism products with the ability to attract, retain, and satisfy a diverse visitor market, while protecting their long-term natural capital.</p> <p>The project has three objectives: (i) to improve tourist facilities and the organization of state parks for better ecotourism management; (ii) to organize and strengthen the tourism product in the direct project area; and (iii) to build up the ecotourism management capacity of the SMA and the parks involved in the project. The project is divided into three components in furtherance of each of these three objectives.</p> <p>Special contractual conditions:</p> <p><i>Condition precedent to the first disbursement</i></p> <ul style="list-style-type: none"> An agreement must be signed between the executing agency and Fundação Florestal specifying the terms of the latter's participation in the project (paragraph 3.8). Evidence must be produced that the project Operating Manual containing the text previously agreed with the Bank is in effect (paragraph 3.6). An individual tourism specialist must have been hired as a consultant to assist the Project Coordination Unit (PCU) during the first six months from the effective date of the loan contract (paragraph 3.5). <p><i>Contractual conditions</i></p> <ul style="list-style-type: none"> Consultants must be hired within six months of the effective date of the loan contract to assist the PCU with all activities concerned with tourism and marketing (paragraph 3.5). Consultants must be hired before commencement of the first works to be carried out with the financing or within six months after the effective date of the loan contract to assist the PCU with supervision of the works (paragraph 3.5). A consulting firm satisfying the requisites and terms of reference agreed with the Bank must be hired to implement the monitoring and evaluation system (paragraph 3.6). A plan for building permanent ecotourism management capacity-in state parks for the executing agency must be presented to the Bank within 24 months after the effective date of the loan contract (paragraph 3.4). The information required for the midterm evaluation review must be submitted to the Bank two months before the review takes place (paragraph 3.35). 				

Exceptions to Bank policies: None.					
Project consistent with country strategy: Yes [X] No []					
Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []					
Verified by CESI on: 20 May 2005					
Environmental and social review: The CESI reviewed the project paper and corresponding transmittal memorandum and agreed with the approach to the issues raised in the minutes of the meeting, concerning security, zoning and mining activities, indirect impacts, and mechanisms for the handling of claims and complaints.					
Procurement: Procurement of goods and services and awards of consulting service contracts are to be made in keeping with Bank procurement policies and procedures. Contract awards for project works with an estimated cost at or above the equivalent of ten million dollars (US\$10,000,000) and procurement of goods and services valued at or above the equivalent of five hundred thousand dollars (US\$500,000) are subject to international competitive bidding. All consulting service contracts valued at or above the equivalent of five hundred thousand dollars (US\$500,000) are also subject to international competitive bidding (see paragraph 3.25).					

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

A. Socioeconomic framework

- 1.1 The project involves two areas of the State of São Paulo, namely the Ribeira Valley region and the São Paulo North Shore. Both areas contain remnants of Brazil's *Mata Atlântica* or Atlantic Forest, a biome of ecological and environmental importance with good potential as an ecotourism attraction despite a number of problems.

1. Ribeira Valley

- 1.2 The Ribeira Valley (*Vale do Ribeira*) was one of Brazil's oldest colonized areas and the site of thriving export ports (for sugar cane, gold, and rice) whose decline coincided with the boom in Minas Gerais in the Eighteenth Century. The area was mainstreamed back into the domestic economy in the Twentieth Century with tea and banana exports and commercial fishing activities.
- 1.3 Nowadays, the regional economy is dependent on exports of agricultural and natural products with little value added to primary production. Most inhabitants are smallholders and most of the land is occupied by smallholdings (36% of land holdings used for farming and stock-raising are less than 10 hectares in size). The secondary sector is limited to the processing of certain mining products, with a small number of facilities and an equally small labor force.
- 1.4 The municípios making up the project area in the Ribeira Valley have a population of approximately 280,000 inhabitants. The Ribeira Valley is a relatively low-income area of the State of São Paulo. The Human Development Index (HDI) for the municípios in the Ribeira Valley region is well below the state-wide HDI (0.727 versus 0.814). The annual per capita income of the area population is approximately R\$140, compared with a mean income figure of R\$875 for the State of São Paulo. This area accounts for a mere 0.22% of value added to state-wide production. The illiteracy rate is 12% (compared with 6.6% for São Paulo as a whole), health service coverage is somewhere around 66% (compared with 85.7% for São Paulo), and the infant mortality rate is 19.61 per thousand live births (compared with 16.07 for São Paulo). Historically, the Ribeira Valley area has had the state's lowest population growth rates, as well as its lowest population density, with only 18 inhabitants per square kilometer.

2. São Paulo North Shore

- 1.5 The São Paulo North Shore in the far northern reaches of the state covers an area of approximately 1,977 square kilometers. Its beaches and proximity to densely forested sierra regions have basically turned this part of the state into a tourist area. The North Shore has been developed into an area of second homes for well-to-do

residents of the city of São Paulo and other parts of the country. Urban sprawl and the growth in tourism are putting increasing pressure on land use.

- 1.6 The area supports a fixed population of approximately 260,000 inhabitants and a floating seasonal population of up to 1.5 million persons. The area economy, dependent on tourism, centers on the tertiary sector (trade and services) and the industry generated by the Petrobras marine terminal.
- 1.7 The *município* of Ilhabela has one of the area's lowest per capita incomes. However, this income figure is apparently not indicative of the area-wide level of social development. Its HDI is comparable to that of municípios in the Ribeira Valley, but local health service coverage is much poorer (25% versus 66% for the Ribeira Valley and 85.7% for the State of São Paulo as a whole). Its population growth rate is extremely high, at 3.2%, which is more than double the state-wide figure, with a population density index of close to 1,000 inhabitants per square kilometer.

B. Focus area

1. *Mata Atlântica*

- 1.8 The project area contains one of the planet's most biodiversity-rich vegetation formations and one of the 17 most endangered biomes, namely the *Mata Atlântica* (Atlantic Forest), declared a World Heritage Site by UNESCO and identified by Conservation International as one of the top 25 international conservation hotspots.
- 1.9 At one time, the Atlantic Forest covered as much as 84% of the State of São Paulo. Now, this biome occupies approximately 8% of the state, which makes for 18% of Brazil's entire Atlantic Forest. Most of the Atlantic Forest in São Paulo State lies along the coast and in the Ribeira Valley region, the two areas targeted by the proposed project.
- 1.10 The Ribeira Valley municípios have the heaviest concentration of forestlands in the state (which cover 68% of their area), approximately half of which (550,000 hectares) are under some environmental protection scheme, thanks to which the Ribeira Valley harbors Atlantic Forest remnants in an excellent state of conservation. The São Paulo coast also still contains major Atlantic Forest remnants, despite strong population pressure.
- 1.11 A total of 11 full-protection conservation units have been established in the Ribeira Valley covering an area of roughly 430,000 hectares. Eight of these units are classified as state parks and three as ecostations. There are three state parks on the São Paulo coast stretching over an area of 120,000 hectares. While the parks serve an important environmental protection function, the management capacity of their oversight agencies is limited at best.

- 1.12 The responsibility for the management of São Paulo's state parks and for ecotourism development within the state park system is vested in the Department of the Environment (SMA), whose operations in these areas are conducted through two related agencies, the Instituto Florestal [Forest Institute] (IF) and the Fundação Florestal [Forest Foundation] (FF). The IF administers most of the state's conservation units, including 5 of the 6 areas involved in the project, while the FF manages Intervales State Park. In fulfilling its responsibilities, the SMA needs to coordinate its operations with the Office of the State Executive Secretary of Tourism in charge of promoting tourism in general and with private industry. The SMA is in the process of systematically realigning its structures and procedures to address this new focus area.
- 1.13 Each state park also has an advisory board headed up by its management agency, with representatives of government agencies, civil society organizations and traditional settlers residing within the boundaries of the parks or in corresponding buffer zones.

2. Ecotourism and state parks

- 1.14 Ecotourism is a type of nature-based tourism centered around travel to protected areas designed to serve as an economic alternative for residents of corresponding buffer zones. As such, it needs to be planned and implemented in such a way as to generate direct revenues for conservation activities, minimizing any negative effects on the natural and sociocultural environment and maximizing the economic benefits accruing to host communities.
- 1.15 There has been a boom in international ecotourism over the past few years. According to a number of estimates, nature tourism accounts for 20% of all international travel. The São Paulo State government views ecotourism as a chance to reconcile economic growth with environmental protection. The conservation units protecting the Atlantic Forest remnants are tourist attractions with good potential as a magnet for regional tourism—more specifically, for the large potential tourist market in the near-by city of São Paulo—and for part of the growing international demand for this type of tourism.
- 1.16 The proposed project involves operations in six state parks with an underdeveloped ecotourism potential. Five of the parks are in the Ribeira Valley (Carlos Botelho, Intervales, Petar, Jacupiranga, and Ilha do Cardoso). The sixth is Ilhabela State Park on the São Paulo North Shore. The criteria used to select these parks for inclusion in the project were: (i) the richness of the area's natural resource endowment; (ii) their potential to help improve region-wide socioeconomic conditions; and (iii) their ability to serve as case studies of ecotourism planning, management, and monitoring mechanisms. Together, the parks encompass an area of close to 320,000 hectares.

- 1.17 Right now, the parks chosen for inclusion in the project attract somewhere around 150,000 visitors per year. A good many of the current visitors to the parks are school groups on environmental education tours. Vacation groups visiting the parks mostly over long weekends and during vacation periods are a source of spontaneous demand, since there are no promotional mechanisms. A large proportion of park visitors pay no entrance fees, as public school teachers and students or local area residents, while Ilhabel's lack of facilities for controlling access to the park precludes the collection of any entrance charges. The official standard entrance fee is R\$3. There is no regularly collected data on revenues generated by park entrance fees or tourism services.
- 1.18 The state parks targeted by the project are plagued by a number of problems preventing them from fully capitalizing on the opportunities afforded by ecotourism as an income-generating mechanism and engine of economic growth for the communities involved in corresponding conservation efforts.
- 1.19 The Ribeira Valley parks have a number of problems in common with other Brazilian parks, namely: (i) inadequate visitor management procedures; (ii) low quality tourism infrastructure, which precludes the attraction of a larger regional market with more spending power or of international tourism; (iii) limited tourism management due to the lack of a vision and of experience in visitation management as a lucrative business activity; (iv) limited revenues from entrance fees and accommodation facilities, which are not plowed directly back into the parks; (v) small numbers of organized tourist attractions; and (vi) little if any coordination with the private sector and inadequate promotional mechanisms.
- 1.20 An improvement in tourism revenues from the Ribeira Valley parks will require: (i) implementation of an ecotourism development strategy designed to significantly raise the quality of tourism facilities; (ii) a boost in tourism revenues by getting the private sector involved in the operation of tourism services; and (iii) assistance in diversifying the tourism product outside the parks to complement and expand existing facilities.
- 1.21 Likewise, the Ilhabela State Park on the São Paulo North Shore is under-equipped and lacks effective tourist oversight. The growth in construction and demand for recreational services, uncontrolled tourist access to the park and unregulated land and sea-based activities are threatening its integrity, making it essential to: (i) control tourist flow and traffic; (ii) establish conservation incentives for the private residential building industry; (iii) implement awareness-raising measures targeted at the local population and park visitors; and (iv) boost revenues from public uses of the park as a source of funding for reinvestment in visitor management and conservation activities.

3. Project area

- 1.22 In light of the relatively large area occupied by the state parks involved in the project and the concentration of investments envisaged in specific areas or “hubs,” the direct project area is limited to investment areas and their respective buffer zones, where they are in areas adjacent to the parks.
- 1.23 The indirect project area is defined as the area occupied by the various municípios in which the parks are located, in which project investments are expected to have a multiplier effect on economic income. The indirect project area in the Ribeira Valley region encompasses approximately 30% of the area of the 13 adjoining municípios. The indirect project area on the São Paulo North Shore encompasses the entire *município* of Ilhabela, since the park itself occupies 80% of its area.

4. Local communities

- 1.24 The rural population of the direct project area consists mainly of communities in areas adjacent to the parks, as well as a few communities within the boundaries of the parks. These latter communities consist of “traditional residents” with legal rights, who settled in the area prior to the creation of the parks. So-called “traditional” groups include Caiçara, Quilombo, Caipira, and indigenous communities. Park residents in the vicinity of the envisaged project investment areas will benefit directly from scheduled technical assistance and training activities designed to improve the quality of tourism services and solidify their involvement in service management.

C. The country’s sector strategy

- 1.25 Brazil’s federal tourism policy is marked by decentralization, a process set in motion by the National Program for the Municipalization of Tourism (MICT, 1994) and continued under the National Tourism Regionalization Program (MTUR, 2003). Both these strategies have strengthened tourism management at the local level through the establishment of an integrated, interactive tourism system for all stakeholders in the development process, leveraging direct benefits for host villages. Along these same lines, the initiatives contemplated in the document “Diretrizes para uma Política Nacional de Turismo Rural” (MTUR, 2004) [National Rural Tourism Policy Guidelines] are equally noteworthy.
- 1.26 Likewise, the State of São Paulo has its own State Ecotourism Policy Guidelines (SMA, 1997) for the development of ecotourism as a regional strategic growth sector designed to: (i) ensure that ecotourism development is in line with conservation policies for natural areas; (ii) improve inter-agency and outside coordination by the government; (iii) facilitate participation by all social groups concerned; (iv) regulate ecotourism activities; (v) help step up ecotourism infrastructure development; and (vi) promote ecotourism as an educational tool for

tourists, local communities, and tourism business owners. The project is in keeping with the aforesaid policy guidelines and builds on local initiatives, particularly in the Ribeira Valley region.

D. The Bank's strategy

- 1.27 The Bank's strategy with Brazil (document GN-2327-1) sets three objectives for Bank cooperation with that country, namely: (i) promoting environmentally sustainable growth with stability; (ii) reducing poverty and promoting social inclusion and greater social and regional equality; and (iii) supporting institutional strengthening, democracy-building, and participatory processes.
- 1.28 Bank cooperation in furtherance of these objectives is concentrated in four areas: (i) SME productivity and infrastructure, with emphasis on the use of public-private partnership models for new investment; (ii) poverty, equity, and human capital formation, with the focus on conditional income distribution programs; (iii) urban living conditions and efficiency, incorporating urban poverty-targeting programs and improvements in the habitability, efficiency, and environmental quality of cities; and (iv) modernization of the State and institutional strengthening, with the emphasis on subnational levels of government.
- 1.29 The project is in keeping with this strategy in that it promotes environmentally sustainable growth with stability by improving tourism infrastructure, creating opportunities for public-private investment partnerships. The strategy views investments in tourism as an important contributing factor to the attainment of this objective. Among its priority action areas are tourism projects, including ecotourism, adventure tourism, and cultural tourism projects designed to heighten international demand and, indirectly, expand the domestic tourism market, particularly local tourism management, training, and preservation of the country's natural and cultural heritage.

E. The project strategy

- 1.30 The proposed project is consistent with the borrower's and the Bank's own strategies, promoting ecotourism development as a way of reconciling economic development with efforts to protect the Brazilian Atlantic Forest's fragile natural resources.
- 1.31 The project focuses on the 6 parks chosen by the SMA as its top investment priorities. The idea is to realize the economic potential of ecotourism to bolster conservation activities in the parks in question while, at the same time, turning them into an engine of economic growth for the benefit of communities in the direct and indirect project areas. To this end, it will fund improvements in existing tourism infrastructure, technical assistance, and training activities designed to strengthen the tourism product in the direct project area, as well as technical assistance and

training for ecotourism management personnel attached to the SMA and corresponding conservation units. The project is a pioneering endeavor by the SMA in this area and, as such, is expected to have a demonstration effect extending into other parks and other states.

1.32 The project's strategy is to:

(i) treat all parks in the Ribeira Valley area as a single integrated tourist destination, with investments centered around a central motif making the parks "package" attractive to target markets and allowing for joint promotional activities, including financing for a long trail traversing three of the five parks (Carlos Botelho, Intervales, and Petar) as a way of solidifying this integrated image;

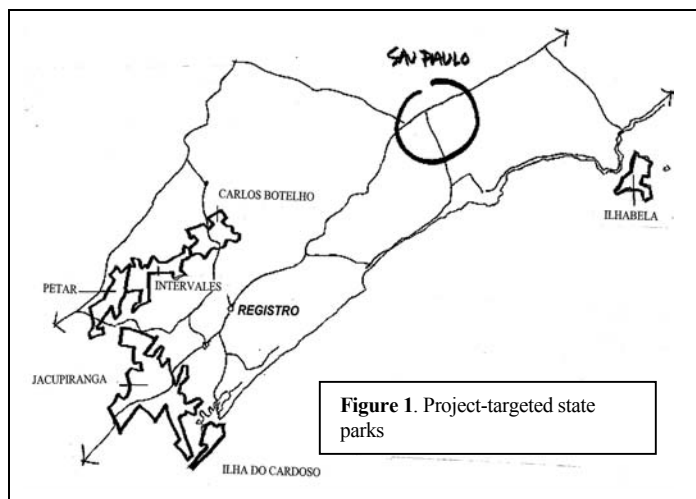


Figure 1. Project-targeted state parks

(ii) portray each park distinctly, according to its resources and attractions, to offer a diversified tourism product and create an itinerary of attractions designed to extend the length of stays in the area and cater to different types of visitors; (iii) develop Ilhabela State Park as a demonstration project for regulatory and monitoring mechanisms which can be replicated in other units subject to similar types of pressure; (iv) complement project investments with technical assistance and institutional strengthening activities for the development of a permanent ecotourism management capacity within the SMA and in the parks; and (v) incorporate the local community and private sector in the project benefit stream, helping to extend the tourist demand engendered by the parks into the direct and indirect project areas. By the end of the project implementation period, the parks should have better tourism infrastructure, should be able to effectively handle a larger and more diverse tourist flow with more spending power and should generate business with a multiplier effect on local communities.

F. Coordination with other development financing organizations

1.33 The project builds on achievements by the KfW-funded Atlantic Forest Conservation Project (PPMA) approved in 1992 and implemented by the SMA, which is scheduled to be completed in 2005. Germany's KfW provided US\$30 million in funding to improve conservation of the Atlantic Forest in the state of São Paulo by strengthening the ability of its state parks to meet this objective. The PPMA project helped establish administrative park headquarters, provided investment funds for the protection of ecological and scenic park assets, and helped develop park management plans whose provisions with respect to public use of state parks will be expanded with project financing. The proposed project utilizes

the implementation structure set up by the KfW project, taking advantage of efficiently operating administrative and technical mechanisms.

II. THE PROJECT

A. Objectives

- 2.1 The **goal** of the project is to develop the project area's sustainable tourism potential as an Atlantic Forest conservation strategy and to help further the region's socioeconomic development.
- 2.2 The **purpose** of the project is to establish and strengthen nature conservation units as tourism products with the ability to attract, retain, and satisfy a diverse visitor market, while protecting their long-term natural capital.
- 2.3 The project **objectives** are to: (i) improve tourist facilities and the organization of state parks for better ecotourism management; (ii) organize and strengthen the tourism product in the direct project area; and (iii) build up the ecotourism management capacity of the SMA and the parks involved in the project. The project is divided into three components in furtherance of each of these three objectives. Project targets and indicators are outlined in the logical framework (Annex I).

B. Project organizational structure and description of its components

1. State park investment component (US\$10,188,449)

- 2.4 The project will finance the rehabilitation and construction of tourism infrastructure in all six parks, including a total of 4 accommodation facilities, 5 restaurants, 7 environmental interpretation centers, 5 administrative headquarters, and various small-scale works to develop the parks' tourist attractions. The plan is to award private concessions for the operation of income-generating services as so-called "business units."
- 2.5 **Carlos Botelho State Park (PECB)** (US\$1,374,811). The project will finance construction work and improvements in PECB to cater to tourists interested in bird watching and nature watching in general. The works will be concentrated in two areas of the park (Sete Barras and San Miguel Arcanjo, the site of the park headquarters). Plans for the first area include the construction of a 24-bed eco-lodge and a restaurant equipped to serve 120 meals a day, a playground, and a multi-purpose shed. In the second area, project funding will be used to refurbish the park's administrative headquarters, expand the auditorium-visitor center and upgrade public facilities, to include a 30-bed lodge, a 150-meal-a-day restaurant, and existing sanitary facilities. The project will also finance works for a park road through portions of the park, outfitting it with two scenic overlooks, picnic grounds, public rest rooms and dressing rooms, and an environmental monitoring station.

- 2.6 **Intervalles State Park (PEIv)** (US\$1,366,740). Funding for PEIv will be used primarily for the refurbishing of a series of existing structures for school and family recreation activities. Scheduled operations in the park headquarters area include the renovation and expansion of two lodges (Pousada Lontra, with 16 units and 80 beds, and Pousada Mono Carvoeiro, with 4 units and 8 beds). The project will also finance the final designs for the refurbishing of a restaurant serving 300 meals a day and improvements to social, athletic, and recreational facilities. Works outside the headquarters area include construction of an entrance gate and a visitor center in the Guapiruvú and Quilombo hub areas.
- 2.7 **Upper Ribeira State Tourist Park (PETAR)** (US\$839,977). Scheduled operations in PETAR include the refurbishing and construction of small-scale reception, information and orientation facilities for visitors interested in recreational activities in four separate hubs, Santana, Caboclos, and Ouro Grosso. Envisaged works in the latter area will refurbish the existing building. Scheduled operations in each of these hubs include the construction of an entrance gate, the upgrading of sanitary facilities, the construction of scenic overlooks, and improvements to parking areas. An old mine in the Caboclos hub area will be upgraded as a tourist attraction. The largest structure envisioned is the environmental interpretation center in the Santana hub.
- 2.8 **Jacupiranga State Park (PEJ)** (US\$1,045,022). The emphasis in PEJ will be on improving area infrastructure around the park's main tourist attraction, "*Caverna do Diabo*" (Devil's Cavern), and expanding the park's physical presence along access roads. Scheduled works for Devil's Cavern include revitalization of the environmental interpretation center, improvements to the security system and high voltage grid for visits to the cavern and the renovation of museum areas, the 480-meal-a-day restaurant, sanitary facilities, and existing parking and recreation areas, including the renovation of 6 cabins for the use of park personnel. Gates will also be built at the main entrances.
- 2.9 **Ilha do Cardoso State Park (PEIC)** (US\$2,141,320). Project operations in PEIC will capitalize on ocean recreation opportunities and upgrade research facilities for marine ecosystems. The project will finance works in four hub areas, Marujá (a residential area for traditional settlers), Perequê, Cananeia, and Ilha da Casca (final designs). Existing visitor reception, information, and orientation facilities in all three areas will be renovated. Scheduled construction work for the Marujá hub includes the building of a museum on local culture and music and a floating dock for the use of tourists and local residents. At the Perequê hub an access pier will be built, the marine animal research and recovery areas will be upgraded, cabins with 10 accommodation units and 50 beds remodeled, and shared accommodation facilities with 11 units and 66 beds renovated. Works scheduled for the Cananeia hub lying in the county seat involve the refitting of the park's reception, information, and reservations center. Other plans for the PEIC include the

establishment of an alternative energy system which, in the future, could be extended to the other parks.

- 2.10 **Ilhabela State Park (PEIb)** (US\$949,589). Project funding for PEIb will be used for the restoration of a historical building to serve as park headquarters and equipped to operate as a visitor and environmental interpretation center. The project will also finance improvements and facilities for two tourist attractions. Plans for the Estrada de Castellanos road include the installation of a gate and signage system, road landscaping, scenic overlooks, and parking areas. Plans for upgrading the underwater trail on Sao Sebastião archipelago include the construction of two piers and an access signage system.
- 2.11 All planned park works include provisions for sanitation facilities such as water supply, sewerage and water treatment systems, electrical infrastructure systems, and landscape architecture. The project will also finance joint works in some or all 6 parks (US\$2,470,990), including the upgrading and construction of a system of interpretive and recreational trails, a 130-kilometer long-distance “20-day” loop trail and special trails such as walkways over mangrove swamp forests on Ilha do Cardoso, canopy walkways and tree-walking trails, and a signage system for all six parks.

2. Project area tourism product development and promotion component (US\$1,579,000)

- 2.12 The project will fund technical assistance and training activities for local communities, micro, small, and medium-size tourism business owners, and municipios in the service area of the parks. Technical assistance and training services for local communities will focus on promoting participation in the benefits of the project and strengthening ties between these communities and the parks by: (i) identifying and developing opportunities for the operation of tourism services; (ii) better organizing the tourism product offered by local communities; (iii) assisting with the preparation of at least 12 projects to be submitted by local communities, to be structured as business plans with provisions for formal community organization for project implementation purposes; (iv) conducting at least 12 training courses; (v) assisting, as necessary, with the identification of sources of funding for activities envisaged; and (vi) affording opportunities for communities to pool their resources. The design of courses for local communities will include a strong mentoring component and practical applications of the concepts introduced in the courses.
- 2.13 Technical assistance and training activities planned for micro, small, and medium-size business owners are aimed at improving service organization and quality and strengthening market access by means of at least 6 courses for business managers combined with customized technical assistance activities for participating firms and at least 14 courses for customer service personnel in tourism companies. Scheduled

technical assistance and training activities for municipal governments are designed to strengthen their land use planning capacity for tourism purposes, as well as their planning capacity for expanding municipal service networks to accommodate a larger tourist flow. Also planned are at least 9 seminars for municipal government experts and at least 6 final designs with municipal governments for improvements to municipal tourist facilities and services.

- 2.14 The project will provide funding for the design and implementation of a marketing plan for the promotion of park tourism facilities creating a product/destination “brand” for use in all promotional activities and the development of a brand identity manual, product catalogue, tourist map, image bank, and web site targeted specifically at the potential market, with an intranet accessible to the parks and participating organizations. A small-scale advertising campaign will be organized to launch the parks’ new tourism services and activities. Other project activities envisaged include the establishment and operation of a marketing data base and integrated reservations system. The marketing plan will include provisions for promoting tourism facilities in the indirect project area, establishing regional tourist itineraries as a possible complement to park visits. It will also include training in tourism marketing management for SMA personnel to enable them to carry on the activities set in motion by the project.

3. Component for ecotourism management capacity building for the SMA and for the parks, and inputs for a long-term strategy (US\$706,400)

- 2.15 The project will finance preliminary studies for the drafting of a proposal for a state government policy on ecotourism and visitation in state parks. It will also finance technical assistance services for the development of corresponding regulations and implementation of the proposal. The following studies will be commissioned to provide critical inputs for policy design and implementation efforts: (i) a study of the conceptual framework for the design of a state policy for ecotourism and visitation management in state parks, including a zoning system for permitted and prohibited park activities; (ii) a study of possible park entrance fee schedules; (iii) a study for the design and operation of a statistical park visitor monitoring system, a security and emergency management system and a claims and complaint system; (iv) studies of possibilities and options for the outsourcing of tourism services under different types of partnership arrangements (concessions, usage permits, etc.) with private enterprises for the operation of park tourism services and promotion and management mechanisms; and (v) a study for the design of mechanisms to maximize reinvestment of park tourism revenues and to facilitate their use for ongoing improvements to tourism facilities and the control of undesirable impacts.
- 2.16 Studies and designs of the following elements will be commissioned to equip the SMA to carry on the activities set in motion with project funding upon the conclusion of the project and shoulder its new responsibilities with the approval of the state ecotourism policy referred to in the preceding paragraph: (i) alternative

SMA internal structures for ecotourism and visitation management in state parks; (ii) mechanisms and activities for the streamlining of administrative and operational ecotourism management-related functions; (iii) specific training needs and priorities for SMA, IF, and FF personnel in the areas of ecotourism, visitor management, and the control of environmental impacts and illegal activities; and (iv) control measures and incentives for improving relations between the parks and local communities in their direct service area. The project will fund the activities as identified in these studies.

- 2.17 The project will finance procurement of field and office equipment for effective ecotourism management by the SMA and participating parks. To bolster park operations during the project implementation period, it will provide funding for the hiring of 6 ecotourism and public visitation coordinators, one per park, to begin work in the first year of project implementation. These consultants will act as a liaison between the project and park personnel. More specifically, they will work with park administrators to improve visitor management.

C. Cost and financing

- 2.18 The total cost of the project is US\$15 million, of which US\$9 million will be financed by the Bank and the equivalent of US\$6 million furnished by local counterpart funding. The following table presents a breakdown of the cost by source of funding and expenditure.

Table 2
Cost table

	Items	IDB	Local	Total	%
<i>I.</i>	<i>Project management</i>	<i>530,000</i>	<i>643,000</i>	<i>1,173,000</i>	<i>7.8</i>
	PCU	110,000	643,000	753,000	
	Supervision of works	420,000	0	420,000	
<i>II.</i>	<i>Direct costs</i>	<i>7,557,000</i>	<i>4,917,000</i>	<i>12,474,000</i>	<i>83.2</i>
	Investments in state parks	7,257,000	2,932,000	10,189,000	
	Tourism product outside the parks	252,000	1,327,000	1,579,000	
	SMA ecotourism management capacity- building	48,000	658,000	706,000	
<i>III.</i>	<i>Associated costs</i>	<i>110,000</i>	<i>100,000</i>	<i>210,000</i>	<i>1.4</i>
	Auditing	110,000	0	110,000	
	Monitoring		100,000	100,000	
<i>IV.</i>	<i>Unallocated costs</i>	<i>803,000</i>	<i>0</i>	<i>803,000</i>	<i>5.3</i>
	Contingencies and cost escalation	803,000	0	803,000	
<i>V.</i>	<i>Financing costs</i>	<i>0</i>	<i>340,000</i>	<i>340,000</i>	<i>2.3</i>
	Interest	0	300,000	300,000	
	Commitment fee	0	40,000	40,000	
	Grand total	9,000,000	6,000,000	15,000,000	100.0
		60.00%	40.00%		

III. PROJECT EXECUTION

A. Borrower, guarantor and executing agency

- 3.1 The **borrower** will be the State of São Paulo, the **guarantor** will be the Federative Republic of Brazil, and the project executing agency the São Paulo state Department of the Environment (SMA). The SMA is a government agency with a core administrative staff whose technical capabilities lie mainly in directly or indirectly related specialized agencies such as the Instituto Florestal [Forest Institute] (IF) and Fundação Florestal [Forest Foundation] (FF), which will assist with project implementation as described in the following paragraphs.

B. Project execution and management

- 3.2 The project executing agency will be the SMA, which will set up a Project Coordination Unit to handle project administrative, financial, accounting, and technical functions with the help of the management office, both the latter and the PCU will report to the Secretary of the management office.
- 3.3 Preparations for the project included an assessment of the institutional capacity of the SMA to implement the project based on the “SECI” (institutional capacity appraisal system) methodology, whose findings are explained in Chapter IV. Measures have been taken to mitigate established problems, as outlined in paragraph 4.3.
- 3.4 To permanently strengthen its ecotourism and public visitation management capacity, the SMA will need to present to the Bank a plan for making necessary realignments in its organizational and technical structure to efficiently and effectively discharge these functions based on the studies and analyses described in Chapter II, to be conducted with Bank assistance. The plan must be accompanied by an appropriate budget and approved by the proper authority. **The SMA is to submit such a plan within 24 months from the date of signature of the loan contract.**

1. Project coordination unit (PCU)

- 3.5 The PCU will consist of: (i) a technical coordinator on the staff of the SMA; (ii) specialists to provide technical assistance for project planning and activities; (iii) technical staff from Forest Institute and Forest Foundation will assist with project execution; (iv) other technical staff from the SMA who have been selected for specific functions. In addition to this team, the PCU will be assisted by consultants in carrying out project activities relating to tourism businesses and marketing as well as the supervision, management, and inspection of project works. **As a condition precedent to the first disbursement, a tourism specialist must be**

hired as a consultant to assist the PCU in initial project execution activities. As a contractual condition, a consulting firm must be hired to assist with tourism-related and marketing activities. As a further contractual condition, prior to commencement of the first work to be carried out with the financing or within six months after the effective date of the loan contract, consultants must be hired to assist the PCU with the supervision and inspection of works.

- 3.6 The duties of the **PCU** are to: (i) deal with the management, monitoring, and evaluation of the targets and activities established in the project's strategic guidelines; (ii) draw up and review the project engineering with the assistance of consultants; (iii) draw up terms of reference and specifications for technical assistance activities and minor works; (iv) serve as a support unit for the coordination of public visits to the parks; (v) ensure compliance with measures for prevention and control of undesirable social and environmental impacts, based on the criteria and processes established in the project environmental report; (vi) operate the monitoring and evaluation (M&E) system with the assistance of a consulting firm **to be hired within 6 months from the date of signature of the loan contract, in accordance with qualifications and terms of reference agreed with the Bank**; (vii) keep bank accounts for administration of the Bank's and the local counterpart's resources; (viii) present in a timely manner disbursement requests, together with justification of eligible expenses; (ix) keep project financial and budget management records, taking into account the Bank's procurement procedures, accounting records, technical/financial reports, internal and external control, establishing an integrated system for financial management of project resources; and (x) keep a proper filing system for documentation in support of eligible project expenses for verification by the Bank and the external auditors; (xi) monitor bidding, contracting, and supervision procedures for firms, individual consultants, and service contractors; (xii) establish tools and procedures for the review and modification of annual work plans (AWP) and draw up AWP and corresponding reports; (xiii) monitor the implementation of AWP and evaluate the progress of the project against scheduled investment activities and expected outcomes, taking into account corresponding socioeconomic, financial, and environmental impacts; (xiv) maintain open lines of communication between the project and different stakeholders; (xv) disseminate the project outcomes; and (xvi) produce a proposal for institutional reform of the SMA for adoption of permanent ecotourism management functions in conservation units. **As a condition precedent to the first disbursement, it must be demonstrated that the project Operating Manual containing the text previously agreed with the Bank is in effect.**

2. Forest Institute (IF) and Forest Foundation (FF)

- 3.7 The **Forest Institute** and **Forest Foundation** will be responsible for: (i) coordinating the implementation of project-financed activities with the parties in charge of park management and investment plans; (ii) ensuring the involvement of

park personnel in training, promotional, community organization, and other activities envisaged; and (iii) maintaining close ties with local communities, municipios, and small and medium-size tourism companies to facilitate the implementation of corresponding activities.

- 3.8 Since it is dealing with a separate legal entity, the SMA and the FF will sign an agreement specifying the terms of the latter's participation in the project. The agreement will provide for and reflect: (i) concurrence with the investment plan; (ii) the intention of taking delivery of the structures built with project funding and a commitment to their operation and maintenance; (iii) its endorsement of the recommendations and procedures established as part of the technical assistance activities; (iv) the involvement of FF officials in project activities; (v) facilitation of relations between the project and local communities and business owners in the Intervalles State Park area; (vi) the outfitting of project-financed tourist facilities for the purposes envisaged based on agreed standards of quality for the project as a whole, within its budget capacity; and (vii) delivery of all information required by the PCU in order to monitor project performance and impact and project financial and physical execution indicators. **It must be demonstrated that an agreement has been signed between SMA and Fundação Florestal specifying the terms of the latter's participation in the project.**

3. Other São Paulo state government departments

- 3.9 The SMA will also work with the State Department of Tourism to ensure that the parks' new tourist facilities are advertised and promoted and, in general, will get this department involved in the backstopping of ecotourism activities in state parks.
- 3.10 To facilitate dealings by the project with other government agencies, the SMA has signed a letter of commitment (*termo de compromisso*) with state government departments with which the project will need to interface during implementation, in order to secure their support for this process.

4. Local communities and private enterprise

- 3.11 Park advisory boards are officially established and headed by the administrators for each park and include representatives of NGOs, municipal governments and the private sector, all of which are involved in park management and conservation. These boards will liaise with the project and with the local communities and various organizations represented on the boards. Regular meetings of park advisory boards will include a report by the head of each park on the progress of project implementation and any unresolved problems at which board members can express their opinions and make recommendations to improve project implementation and the reach and distribution of project benefits.

- 3.12 The PCU will also work with trade organizations in the region's private tourism industry to conduct training and technical assistance activities and promote the parks as tourist destinations and ensure its compliance with the project's strategic guidelines, the underlying principles of ecotourism and controls to prevent undesirable social and environmental impacts.

C. Implementation of project components

1. State park investment component

- 3.13 The SMA will hire firms to prepare architectural and executive studies for the 12 visitor centers, 4 lodges and 5 restaurants and a separate group of firms to prepare architectural and structural designs for small-scale works such as recreation areas, trails, management of caverns for public admission, and other activities. The SMA will use contractors for all such works. Contracts for construction and consulting services will be awarded in accordance with Bank policy.
- 3.14 The management of business units for tourism-related services (accommodation, restaurants, handicraft sales) will be put out to tender so that small and medium-sized entrepreneurs in the region have an opportunity to participate. Public-interest associations (*organizações da sociedade civil de interesse público*) may be hired for the operation of smaller scale tourism services. A study conducted in the project preparation phase and an assessment of the financial viability of major investments at the final design stage showed that such associations can be mutually beneficial to both the business owners and the parks in question.
- 3.15 After the bidding process is over, the business units may be operated under either a limited-use permit (*permissão de uso qualificada*) or a partnership agreement (*termos de parceria*). Limited-use permits are administrative instruments whereby the government awards through a competitive bidding process the right to operate a government service, for which a user fee may be charged. It is a "limited use permit" because the administrative contract is of limited duration. *Termos de parceria* are also competitively bid administrative contracts based on so-called "project bidding conditions" applicable to public-interest associations. This instrument permits joint management programs in conservation units within São Paulo State with work plans that spell out cooperative arrangements among participants, set targets, and establish expected outcomes, deadlines, and performance evaluation criteria. Both types of operating arrangement will include a clause requiring the concession holder to bear all operating and maintenance costs for their respective business units.
- 3.16 The limited-use permit will be used for the operation of business units for accommodation, restaurant, handicrafts, shops, and recreation stands, with a competitive bidding process open to profit-oriented private companies and/or private entrepreneurs, and will not involve the transfer of public resources. Shops

and recreation stands may also be operated under partnership agreements open to nonprofit public interest associations.

2. Project area tourism product development and promotion component

- 3.17 Technical assistance and training activities for the communities, micro, small, and medium-sized tourism services, and municipios may be carried out by OCSIPs and consulting firms, to be selected through a competitive bidding process. As nonprofit organizations with a presence in the area, OSCIPs have a comparative advantage. The SMA will award consulting service contracts for technical assistance and training activities, establish terms of reference for bidding and contracting and monitor all technical aspects of service performance. The following paragraphs outline established criteria for the selection of recipient communities, entrepreneurs and municipios for project-funded technical assistance and training services.
- 3.18 The **criteria for the selection of recipient communities** are as follows: (i) they must be integrated into the area served directly by the project; and (ii) they must submit projects for the delivery of services directly related to tourism development (traditional products, crafts, and tourist services).
- 3.19 The **selection criteria for micro, small, and medium-size tourism entrepreneurs** are as follows: (i) they must be residents of municipios in the direct project area; and (ii) they must represent companies or joint ventures operating food and lodging services, sports and recreational activities or tour operators, monitors, and others involved in tourism activities.
- 3.20 The **selection criteria for municipios** are: (i) they must be located in the indirect project area; (ii) they must be in charge of planning and administering basic services and areas associated with tourism-related services and issues; and (iii) they must have ties to the activities and projects to be supported by project operations.

3. Component for ecotourism management capacity building for the SMA, the parks, and inputs for a long-term strategy

- 3.21 The SMA will engage the services of consultants to perform the project studies and to provide technical assistance and training services.

4. Revolving fund

- 3.22 A revolving fund will be set up specifically for project implementation purposes through a special bank account for the project. Considering the number of concurrent contracts and payments to be made to meet a schedule of critical project deadlines, it is proposed that a revolving fund be established for up to 5% of the loan amount. The executing agency will be responsible for presenting semiannual status reports on the revolving fund through the PCU within sixty (60) days after the end of each six-month period.

D. Project execution and disbursement schedule

- 3.23 The project will be implemented over a period of four years. The disbursement period for the project will also be four years, based on the disbursement schedule presented in the following table, which may be modified in the course of project implementation by mutual agreement between the parties.

Table 3
Disbursement schedule (US\$)

Source	Year I (2006)	Year II (2007)	Year III (2008)	Year IV (2009)	Total
IDB funding	2,544	3,580	2,178	698	9,000
Counterpart	2,226	1,815	1,184	775	6,000
Total	4,770	5,395	3,362	1,473	15,000
	31.8%	35.9%	22.4%	9.82%	100%

E. Procurement of goods and services

- 3.24 Contracts for goods and services and consulting service contracts will be awarded in accordance with Bank procurement policies and procedures. Contracts for project works with an estimated value of the equivalent of US\$10 million or more and goods and services valued at the equivalent of US\$500,000 or more are subject to international competitive bidding. All consulting service contracts valued at the equivalent of US\$500,000 or more are also subject to international competitive bidding. All procurement to be financed with project resources has been determined.
- 3.25 The State of São Paulo has a centralized procurement system for goods and services which was set up under the National Fiscal Administration Program for the Brazilian States [PNAFE] (980/OC-BR) to capitalize on economies of scale. This system is not directly applicable to the project, whose procurement, by its nature, does not lend itself to package bidding because the investments will be highly dispersed geographically and staggered over time [due to their high degree of geographic dispersion and the staggering of corresponding investments.] Accordingly, all procurement under the project will be made directly by the SMA, as established in applicable state government regulations.
- 3.26 Since the SMA has no previous experience in implementing programs with the Bank, the project provides for an ex ante review system with the oversight mechanism outlined below for procurement and disbursements. The Bank may elect to make ex post reviews of procurement and disbursement procedures twelve (12) months from the date of the first procurement or contract in cases where the value of such procurement or contracts is below the thresholds indicated in the preceding paragraph (and less than US\$50,000 in the case of contracts with

individual consultants) and the Bank has determined that the SMA has adequate internal control procedures based on regular reviews, outside auditors' reports on project financial statements, and on-site inspections.

F. Procurement plan

- 3.27 This project will be governed by the Bank's new procurement policy (document GN-2349-4, Procurement Policies for Bank-financed Goods and Services, and document GN-2350-4, Policies for the Selection of Bank-financed Consultants, both dated 19 January 2005). The borrower has furnished the Bank with a procurement plan for the first 18 months of project implementation, which has been reviewed and deemed acceptable by the Bank. The plan outlines: (i) the specific contracts to be put out to tender for works, goods, and consulting services for project implementation purposes; (ii) procedures for the selection of consultants; (iii) procedures for the awarding of contracts for works and goods; and (iv) applicable Bank review procedures. The borrower will need to update its procurement plan every year ensuing 18-month period on a yearly basis, as needed, or in the event of any substantial changes. Any proposed modification to the procurement plan is to be submitted to the Bank for approval. The current version of the procurement plan is to be available for review by the Bank at all times.

G. Recognition of prior expenses

- 3.28 The borrower requested that the Bank recognize the equivalent of US\$620,000 (R\$1,550,000) in expenditures incurred during the project preparation phase as chargeable to local counterpart funding. The executing agency was advised that such costs could be chargeable retroactively to the project provided the Bank confirmed they were eligible project costs and procurement procedures substantially similar to those of the Bank were used for procurement of goods, services, and works procedures in all material aspects. Such expenditures must have been in the 18-month period prior to the date on which the loan was approved by the Bank's Board of Executive Directors, but not earlier than 30 May 2004.

H. Operation and maintenance

- 3.29 The State of São Paulo and, more specifically, the SMA will be responsible for the operation and maintenance of project-financed works. However, operating and maintenance costs for facilities run as concessions will be borne by the private operators. The cost of operating and maintaining facilities unsuitable for concessions (water supply and sanitation facilities, visitor centers, administration buildings, landscaping, etc.) will be borne by the State of São Paulo.

I. Cost recovery

- 3.30 According to available data on project parks for the year 2003, the R\$485,900 in revenues generated by park entrance fees and hospitality services covered an

average of 32.1% of the parks' aggregate annual operating cost (R\$1,513,709), or 14.1% if the R\$1,957,005 in investments made in that year is taken into account. The difference was made up by state government funding.

- 3.31 The project will boost annual park operating and maintenance costs by R\$187,500 with the new investments in park infrastructure.
- 3.32 Market research puts the projected number of visitors to the parks each year at somewhere between 350,000 and 450,000. Based on the smallest projected increase and the current entrance fee of R\$3, then 61% of annual park operating and maintenance costs (R\$1,701,209) could be recovered by the end of the project implementation period and 48% of investment costs within a 20-year period. The entrance fee will be adjusted upwards to achieve full recovery of park operating and maintenance costs. A study will be conducted during the course of the project period to establish the value of entrance fees and other charges enabling the SMA to recover 100% of visitor management and service operating and maintenance costs for the participating parks. According to preliminary figures, this would require raising the average entrance fee from R\$3 to R\$5. Assuming there are 350,000 visitors per year, this fee should allow for the recovery of 90% of the cost of all investments in the parks over a twenty-year span.

J. Monitoring and evaluation

- 3.33 The project will have a monitoring and evaluation (M & E) system. During project preparation, a baseline will be established for the main project impact indicators, as reflected in the indicators in the logical framework and PPMR. This baseline is the point of reference for the technical project implementation and impact monitoring system. The M & E system, which includes a data base with basic information on project monitoring, management, and impact indicators, consists of two components: (i) the project administrative implementation monitoring system; and (ii) the project technical implementation, performance, and impact monitoring system. The technical implementation monitoring system will have three modules: a specific park management module; a park visitor information module; and a data module for the logical framework and other project impact evaluation indicators. The types of indicators in the logical framework have been fine-tuned, with the emphasis on indicators furnishing information on medium and long-term project outcomes and impacts. The M & E system will also monitor project-related environmental quality variables.
- 3.34 The PCU will use the monitoring and evaluation system to track project outcomes and impacts having to do with: (i) park performance and patterns with respect to the impact (benefits and disadvantages) of project implementation within its service area; (ii) the project's impact on the involvement of the tourism industry as an agent for improving environmental protection (operating as a disincentive to illegal activities), particularly in conservation units; (iii) the project's role in developing

- tourism in the region and its impact on the region's economic growth and on community, institutional, and business development in the project area; and (iv) the extent to which local community in buffer zones are able to become involved in tourism activities (chain-wide and/or creation of employment distribution of benefits and/or distribution of benefits). An evaluation of preliminary project outcomes and impacts will be made at the end of the project implementation period, with data to be collected on an annual basis.
- 3.35 The project includes provisions for a **midterm review 24 months after the date of signature of the loan contract or upon the disbursement of 50% of the loan amount, whichever comes first**. The midterm review will focus on: (i) progress in establishing a pricing policy and policy for reinvestment of tourism revenues in the parks; (ii) progress in strengthening the institutional capacity of the SMA to effectively manage park tourism activities; (iii) progress in getting private enterprises involved in the running of lodges, restaurants, and other facilities as concessions; (iv) changes in the degree to which communities, and women in particular, share in benefits from tourism activities; (v) a performance evaluation of the business units; and (vi) a review of project implementation schedule and adjustments to the scope of the second half of the project. **Needed information will be assembled and forwarded to the Bank 22 months after the date of signature of the loan contract.**
- 3.36 In keeping with Bank policy, the PCU will assemble, store and maintain all necessary information, indicators, and benchmarks for drawing up the project completion report, including annual work plans, and midterm and final reviews.
- 3.37 The SMA is interested in conducting an **ex post project evaluation** and has agreed to continue monitoring major project impact indicators for a period of up to 5 years after the end of the project. It will procure consulting services to perform this evaluation in due course, in line with procedures to be established by the Bank. **The SMA will deliver draft terms of reference for the ex post evaluation for consideration by the Bank as part of the information to be furnished in preparation for the midterm review.**

K. Project auditing

- 3.38 The executing agency will be required to furnish the Bank with project financial statements duly audited by a firm of independent auditors acceptable to the Bank within 120 days after the end of each fiscal year and after the last disbursement. Such audits are to be conducted according to terms of reference pre-approved by the Bank (document AF-400) and Bank policy and requirements for outside auditing (documents AF-100 and AF-300). Auditing costs are eligible for project financing. The auditing firm will be selected and hired in accordance with standard procedures (document AF-200) applicable to outside auditing firms.

IV. FEASIBILITY AND RISKS

A. Institutional feasibility

1. Ability of the SMA to fulfill its project-related administrative responsibilities. SECI analysis

- 4.1 The SMA will rely on the Executive Office's management staff in financial, administrative, and accounting matters and in operations programming. For technical management, however, it will rely on a coordinator and the technical support and assistance of specialized consulting firms. An assessment was made of the SMA's ability to implement the project, focusing on areas such as operations programming, financial management, the management of goods and services, human resource management, external and internal control procedures, and its administrative structure. The study was conducted, using the SECI (institutional capacity appraisal system) method. It considered the experience gleaned by the SMA in implementing the Atlantic Forest Conservation Program (PPMA) funded by the KfW.
- 4.2 The study showed that the SMA needs to strengthen certain aspects of its financial, administrative, and accounting management to enable it to properly implement the project. These weaknesses are the result of rigidities in the administrative accounting system for the entire São Paulo State government sector, which precludes the production of project-specific financial statements as required by the Bank. These problems will be remedied by the use of a complementary project-specific system for which funding has been set aside in the project budget.
- 4.3 The study conducted by the SECI methodology engendered the following recommendations for project management and administration during the course of its implementation:
- a. **Administrative organization system:** The SMA will need to put together an organizational and procedural manual describing the responsibilities, functions, lines of authority, and functional relations of all personnel involved in implementing the project.
 - b. **Goods and services management system:** The SMA will need to round out the staff of its Executive Office with an individual who will administer project-financed goods and services. The SMA's organizational and procedural manual will include rules and procedures with respect to the duties and functions of all personnel involved in the procurement of goods and services.
 - c. **Financial management system:** The SMA will procure an accounting system to complement the SIAFEM (financial management system for Brazilian state and

municipal governments) that will be used for project financial management purposes.

- 4.4 The SMA is taking steps to implement these recommendations prior to the commencement of negotiations on the loan.

2. Ability of the SMA to fulfill its project-related technical responsibilities

- 4.5 With the involvement of the IF and FF, the SMA has a sizeable technical staff with training in the conservation and management of protected areas. The SMA's main weakness is its lack of tourism management and promotion experts. This issue will receive immediate attention through the use of project funding to hire a consulting firm to assign tourism specialists and provide direct assistance to the PCU. However, this is not a definitive solution to the problem. The SMA will need to make medium and long-term realignments in its organizational structure to continue to discharge these functions, shouldering the financial responsibility. To this end, there is a special contractual condition requiring submission to the Bank of an appropriate plan and budget approved by the authorities for building permanent SMA institutional capacity in this area.
- 4.6 The project is considered feasible from an institutional and operational standpoint in that: (i) major project investments are focused on park access hubs already open to the public, to be complemented by improvements to facilities and services in selected secondary hubs; (ii) it has a straightforward implementation structure and its activities all fall within the purview of the executing agency; (iii) it does not attempt to address all region-wide tourism development needs, with project investments confined to areas within participating parks and any activities outside the parks limited strictly to technical assistance and training; and (iv) its institutional strengthening efforts are focused directly on ecotourism management-related functions currently regarded as weak, providing for the outsourcing of certain activities and services to make their operation more effective and lucrative.

B. Socioeconomic feasibility

- 4.7 All project-financed investments in the participating parks were subject to a socioeconomic appraisal based on a comparison of (incremental) economic costs and benefits with and without the project. Computations of benefits were based on data furnished by the SMA on prospective demand, average spending per visitor, park entrance fees, and lengths of stays in the area. The costs considered in the appraisal were incremental investment, operating, and maintenance costs valued at efficiency prices. It also considered investments in technical assistance and institution-strengthening, though the benefits (better tourism and environmental management) reach beyond the project area. The investments to be made in each park with project funding all represent the least cost economic alternative.

- 4.8 The cost-benefit analysis considered the parks as a whole rather than each individual park, being as the selected parks are to be treated as an integrated tourist destination, with project investments designed to make the entire parks package attractive to target markets and allow for joint promotional activities. Measurements of the benefits engendered by project investments in the parks were based on the projected increase in the number of visitors, expected revenues from park entrance fees, expected revenues from payments to the parks for concessions, and region-wide benefits associated with average daily spending by park visitors (the multiplier effect). Presumably, benefits in terms of job creation by the new business units operating in the parks and income generation are considered in estimates of region-wide benefits. The findings of the cost-benefit analysis demonstrate the project's economic feasibility, showing economic internal rates of return of over 12% (as high as 16.67%). Resulting cost-benefit ratios were above 1.0.

Table 3
Cost-benefit analysis

Area	Economic net present value (US\$000)				EIRR	C/B
	Benefit	Investment	O & M	Net benefit		
Total parks	13,861.97	10,656.94	516.61	3,721.64	16.67%	1.24

- 4.9 A project sensitivity analysis simulated variations in expected benefits and costs incurred. The simulations varied the estimated value of factors such as the number of park visitors, the cost of park entrance fees, and average daily spending per visitor-day. The analysis showed project feasibility to be rather resilient. The project is economically feasible, even with cost overruns of up to 15% (with benefits remaining constant) or with a reduction of as much as 20% in expected benefits (with costs remaining constant). Moreover, the project is still economically feasible with cost overruns of up to 10% and a simultaneous comparable reduction in expected benefits.

C. Financial feasibility

1. Business units

- 4.10 The economic-financial appraisal of the business units to be established in each park demonstrates their financial feasibility and ability to generate large enough profits to attract private operators and pay for investments in any renovations that may be required and concession operating costs.
- 4.11 The financial appraisal was based on projections of the income generated by each business unit according to the number of park visitors (which is expected to double by the end of the project) and the types of activities envisaged, taking into account all capital investment, and operating expenses, and concession costs in arriving at a net annual income figure. The present value of net earnings of concession operators

is well above the present value of capital investments and operating costs, including all concession costs. The financial internal rate of return for the business units ranges from 110% for businesses operating food services and engaged in trade (shops), with high capital turnover, to 12.8% for business units operating lodging services, with high capital investment costs and relatively high fixed operating costs.

2. State of São Paulo

- 4.12 The financial standing of the State of São Paulo was examined from three standpoints: (i) budget performance for 2000 to 2004, (ii) budget projections of income and expenditures from 2005 through 2014; and (iii) requirements for the assumption of new debt by the state government under the Fiscal Responsibility Act (LRF).
- 4.13 **Budget performance:** The state has demonstrated an ability to effectively manage its finances, posting current, fiscal, and primary surpluses throughout the reference period. Tax revenues for 2004 were up 14.6% from 2003, surpassing the original R\$47.734 billion forecast by 7.3%. This boost in tax revenues is the result of the state's good performance in collecting property and income taxes and taxes on production and trade in goods and services. The state's current, fiscal, and primary results for each year of the reference period reflect consistent surpluses exceeding the value of disbursements for debt service payments and local counterpart funding. Its "cash balance to balance payable" ratio was 1.50 as of December 2004, indicating that any unpaid expenditures had a fiscal offset at the close of that year.
- 4.14 **Budget projections:** The financial appraisal was based on the State of São Paulo's Fiscal Restructuring and Adjustment bill of 14 April 2004. Two major adjustments were made in the projections contained in this document for the years 2005 and 2006. These adjustments, based on the budget outturn for 2004, were: (i) a boost in tax revenues by approximately 4.8%; and (ii) a 7% increase in personnel costs. Projections for subsequent years were based on inflation forecasts published by the Central Bank of Brazil. The appraisal demonstrates that the State of São Paulo has sufficient financial resources to meet its debt service obligations and provide counterpart funding for project implementation, showing current and fiscal surpluses for each year.

Table 4
Financial projections for the State of São Paulo for 2004-2013 (in millions of reais)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. Revenue	65,059.6	71,082.6	74,139.2	77,327.1	80,652.2	84,120.2	87,737.4	91,510.1	95,445.1	99,549.2
Current revenue	63,969.6	69,243.5	72,221.0	75,326.5	78,565.5	81,943.8	85,467.4	89,142.5	92,975.6	96,973.6
Capital revenue	1,090.0	1,839.1	1,918.2	2,000.7	2,086.7	2,176.4	2,270.0	2,367.6	2,469.4	2,575.6
2. Expenditures	64,684.2	70,605.9	73,642.0	76,808.6	80,111.3	83,556.1	87,149.0	90,896.4	94,805.0	98,881.6
Current expenditures	59,717.6	64,300.9	67,065.8	69,949.7	72,957.5	76,094.7	79,366.7	82,779.5	86,339.0	90,051.6
Capital expenditures	4,966.6	6,305.0	6,576.1	6,858.9	7,153.8	7,461.4	7,782.3	8,116.9	8,465.9	8,830.0
<i>Investments</i>	3,953.3	4,533.7	4,728.6	4,932.0	5,144.1	5,365.3	5,596.0	5,836.6	6,087.6	6,349.3
<i>Amortization</i>	1,013.3	1,771.3	1,847.5	1,926.9	2,009.8	2,096.2	2,186.3	2,280.3	2,378.4	2,480.7
3. Result before the project	375.4	476.7	497.2	518.6	540.9	564.1	588.4	613.7	640.1	667.6
4. Program(0.9m)	3.7	6.3	7.6	7.7	0.4	0.4	0.5	0.6	0.6	0.6
<i>Counterpart</i>	3.7	6.2	7.4	7.4	0.0	0.0	0.0	0.0	0.0	0.0
<i>Debt service</i>	0.0	0.1	0.2	0.3	0.4	0.4	0.5	0.6	0.6	0.6
7. Fiscal result	371.7	470.4	489.6	510.9	540.5	563.7	587.9	613.1	639.5	667.0

4.15 Requirements under the Fiscal Responsibility Act (LRF): This legislation requires compliance with a series of fiscal indicators as a criterion for determining the eligibility of state governments to engage in external borrowing. As summed up in Table 5, a study of the period 2002-2004 shows São Paulo within the established limits for three indicators, namely personnel costs, credit transactions for the fiscal year, and the annual value of debt service. It is slightly above the ceiling set for the ratio of net consolidated debt to net current revenue (NCR). However, the State of São Paulo Fiscal Adjustment Program provides a timetable for adjusting to this indicator. The target for 2004 was 2.2372, with the state ratio at 2.2266 for that year, which exempts it from the restriction otherwise imposed for noncompliance with this indicator. The state has until the year 2017 to bring itself into compliance with the established ceiling under the Fiscal Responsibility Act.

Table 5
Financial standing vs. external borrowing capacity, São Paulo, December 2004

Indicators		2002	2003	2004
Personnel costs / NCR	• Actual figure	56.37%	55.22%	52.61%
	• Ceiling	60.00%	60.00%	60.00%
Credit transactions for the fiscal year / NCR	• Actual figure	1.23%	1.31%	1.11%
	• Ceiling	16.0%	16.0%	16.0%
Annual debt service / NCR	• Actual figure	6.18%	9.29%	8.35%
	• Ceiling	11.5%	11.5%	11.5%
Net consolidated debt / NCR	• Actual figure	2.27 times	2.24 times	2.22 times
	• Ceiling	2 times	2 times	2 times

The data in the table is based on information published by the State Department of Finance.

D. Environmental impact

- 4.16 Implementation of the proposed project is expected to have three types of impacts: (i) positive impacts from technical assistance and training activities; (ii) direct impacts from the increase in the number of visitors and in the use of trails, accommodations and other tourist facilities; and (iii) direct impacts from the construction and remodeling of buildings for the operation of food and lodging services.
- 4.17 The development of visitor management and monitoring plans, procedures, and manuals and the training of park personnel in environmental impact assessment and mitigation techniques should have positive impacts. Manpower training and the presence of tourists and their economic impact should reduce the incidence of illegal activities.
- 4.18 Any adverse impacts of the projected increase in visitors will be prevented and mitigated by a public visitation plan for each park in line with its carrying capacity and zoning requirements, including a usage plan for each tourist attraction drawn up according to a field survey, mapping, and land use planning, rules governing park use and staffing provisions for personnel to assist in its implementation. The project's M & E system should enable park personnel to identify any potential undesirable impacts at an early stage, including illegal activities affecting visitor security, and to handle any complaints and emergencies.
- 4.19 To prevent any direct impacts from construction and remodeling work, all such works will be subject to strict park regulations already established and in effect. The establishment of consolidated public use areas (designated as intensive, extensive, and special use zones in management plans) should minimize any such impacts. Liquid and solid waste production and increased demand for drinking water are examples of direct impacts requiring mitigation measures. A review of the architectural and engineering plans of the designs for scheduled works (66% of the total project cost) pinpointed additional investments to ensure an adequate water supply and the proper treatment of wastes. These mitigation measures raised costs by approximately 20% compared with the original cost of the designs, with the total project cost adjusted accordingly.
- 4.20 The features of the project are such as to engender positive social impacts in the form of new employment and income-earning opportunities for communities in the direct and indirect project area. The project affords ample opportunities for the involvement of civil society through the park advisory boards.
- 4.21 As the environmental authority for the State of São Paulo, the SMA is responsible for ensuring the sustainability of the state's environmental assets. The SMA issues environmental permits, delegating this authority to conservation units in the case of works to be constructed within such areas, in which event the responsibility for the

issuance of such permits falls to the manager of each unit. Construction and operating permits will be secured for all project works and activities through regular legal channels prior to commencement of any such works.

E. Beneficiaries

- 4.22 The **beneficiaries** of the project will be: (i) park visitors, to be afforded access to better information and more recreational opportunities; (ii) state park administrators and personnel, to be furnished with better technical visitor management tools and infrastructure; (iii) residents of poor communities and owners of small tourism companies in parts of the Ribeira Valley lying within the project area, to be afforded new business and employment opportunities and assisted in capitalizing on such opportunities; and (iv) residents of the State of São Paulo, to be afforded better recreational options.
- 4.23 The main **outcomes** expected from the project are: (i) a doubling of the annual volume of visitors from 150,000 to 300,000; (ii) diversification of the visitor profile with a view to attracting tourists with more spending power interested in longer stays in the parks; and (iii) increased tourism revenues, to be reinvested into conservation activities in the parks to help ensure their financial sustainability.

F. Risks

- 4.24 **SMA ecotourism management capacity.** The SMA will be responsible for the implementation, coordination, and promotion of ecotourism activities. Since it is not adequately prepared to fulfill these responsibilities at this time, arrangements have been made for its duties to be taken over by the PCU at the beginning of the project. With the help of the project, the SMA will gradually develop the necessary capabilities to ensure that the economic and social processes to be set in motion by project implementation are sustainable after completion of the project. In light of constraints imposed by the country's austerity policy and restrictions on government reform, the restructuring of the SMA could pose certain problems and may hinge on the support and acceptance of outside agencies. The SMA has agreed to present a viable plan and budget duly approved by the authorities to help spur necessary decision-making that ensures the sustainability of project benefits.

ECOTOURISM DEVELOPMENT PROJECT FOR THE MATA ATLÂNTICA REGION IN THE STATE OF SÃO PAULO
LOGICAL FRAMEWORK

Description	Indicators	Means of verification	Assumptions
<p>Goal</p> <p>Develop the project area's sustainable tourism potential as a conservation strategy for the <i>Mata Atlântica</i> or Atlantic Forest region and to help further its socioeconomic development.</p>	<p>Boost in the current value of average visitor spending in the region by 50%:</p> <p>January 2005 R\$90/visitor/day</p> <p>December 2012 R\$136/visitor/day</p> <p>Boost in direct employment in the tourism industry in the 13 municípios in the Ribeira Valley region:</p> <p>January 2005 1.34%</p> <p>December 2012 2.01%</p> <p>Boost in the number of tourism companies doing business in the project service area:</p> <p>January 2005 681</p> <p>December 2012 1013</p>	<p>Surveys of park visitors by the SMA and tour operators</p> <p>IBGE [Brazilian Geography and Statistics Bureau] industrial classification data certified by the Ministry of Labor and Employment – Brazilian Classification of Occupations (CBO2002) and National Classification of Economic Activities (CNAE). CBO code GG5 “Service personnel, salespersons in shops and markets.” CNAE codes 55.23-9, 55.13-1, 55.24-7, 55.20-0, 55.29-8, 55.19-0 and 55.21-2 for food and lodging services and codes groups 50.50-4, 50.41-5 and 50.20-2 for automotive vehicle sales and repairs.</p> <p>IBGE industrial classification data</p> <p>Ex post evaluation</p>	<p>There are no macroeconomic shocks negatively affecting the domestic economy and specifically eroding the purchasing power of prospective park visitors.</p> <p>There are no reports of any developments negatively affecting international tourism.</p>

Description	Indicators	Means of verification	Assumptions												
Purpose Establish and strengthen nature conservation units as tourism products with the ability to attract, retain, and satisfy a diverse visitor market, while protecting their long-term natural capital.	<p>Boost in the number of park visitors from 170,000/year (2004) to 300,000/year by the end of the project implementation period (2009):</p> <p>Year 1 184,000 (8%)</p> <p>Year 2 212,000 (15%)</p> <p>Year 3 250,000 (18%)</p> <p>Year 4 300,000 (20%)</p> <p>Boost of at least 50% in the current value of average daily spending per overnight visitor to the parks of R\$70/day (2004) by the end of the project implementation period (2009):</p> <p>Year 1 R\$80 (14%)</p> <p>Year 2 R\$90 (12.5%)</p> <p>Year 3 R\$99 (10%)</p> <p>Year 4 R\$108 (9%)</p> <p>Boost in the current average bed occupancy rate for park lodging facilities from approximately 20% to 60% by the end of the project implementation period (2009)</p> <p>Reasons for visiting each park are more diverse depending on individual interests (base year 2003) by the end of the project implementation period (2009)</p> <p>1. <i>Carlos Botelho</i></p> <table><tr><td></td><td><u>2003</u></td><td><u>2009</u></td></tr><tr><td>Education</td><td>60%</td><td>40%</td></tr><tr><td>Leisure</td><td>40%</td><td>50%</td></tr><tr><td>Events</td><td>0%</td><td>10%</td></tr></table>		<u>2003</u>	<u>2009</u>	Education	60%	40%	Leisure	40%	50%	Events	0%	10%	<p>Park Visitor Management System data</p> <p>Survey of park visitors. Records of lodgings and restaurants within the parks</p> <p>Records of lodgings within the parks</p> <p>Surveys of visitors entering the parks</p>	<p>There are no macroeconomic shocks negatively affecting the domestic economy and specifically eroding the purchasing power of prospective park visitors.</p> <p>Government funding for state parks stays relatively consistent.</p> <p>Tourism services in the form of concessions are run efficiently, in keeping with commercial criteria and financially, socially and environmentally sustainable practices.</p> <p>Park personnel are able to embrace a different mentality allowing for more commercial development of the parks’ tourism potential.</p>
	<u>2003</u>	<u>2009</u>													
Education	60%	40%													
Leisure	40%	50%													
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Description	Indicators		Means of verification	Assumptions																																															
	<p>2. <i>Intervales</i></p> <table> <tr> <td></td> <td><u>2003</u></td> <td><u>2009</u></td> </tr> <tr> <td>Education</td> <td>21%</td> <td>15%</td> </tr> <tr> <td>Leisure</td> <td>68%</td> <td>65%</td> </tr> <tr> <td>Events</td> <td>11%</td> <td>20%</td> </tr> </table> <p>3. <i>Petar</i></p> <table> <tr> <td></td> <td><u>2003</u></td> <td><u>2009</u></td> </tr> <tr> <td>Education</td> <td>70%</td> <td>50%</td> </tr> <tr> <td>Leisure</td> <td>30%</td> <td>45%</td> </tr> <tr> <td>Events</td> <td>0%</td> <td>5%</td> </tr> </table> <p>4. <i>Jacupiranga</i></p> <table> <tr> <td></td> <td><u>2003</u></td> <td><u>2009</u></td> </tr> <tr> <td>Education</td> <td>9%</td> <td>25%</td> </tr> <tr> <td>Leisure</td> <td>91%</td> <td>75%</td> </tr> <tr> <td>Events</td> <td>0%</td> <td>0%</td> </tr> </table> <p>5. <i>Ilha de Cardoso</i></p> <table> <tr> <td></td> <td><u>2003</u></td> <td><u>2009</u></td> </tr> <tr> <td>Education</td> <td>50%</td> <td>35%</td> </tr> <tr> <td>Leisure</td> <td>50%</td> <td>60%</td> </tr> <tr> <td>Events</td> <td>0%</td> <td>5%</td> </tr> </table> <p>Boost in female involvement on the advisory boards of the 6 parks from an average of 30% to 50% by the end of the project implementation period (2009):</p> <p>Year 2 40%</p> <p>Year 4 50%</p> <p>Improvement in the environmental management of <i>Ilhabela State Park</i> as a result of the implementation of the visitation plan by the end of the project implementation period (2009), as measured by:</p>			<u>2003</u>	<u>2009</u>	Education	21%	15%	Leisure	68%	65%	Events	11%	20%		<u>2003</u>	<u>2009</u>	Education	70%	50%	Leisure	30%	45%	Events	0%	5%		<u>2003</u>	<u>2009</u>	Education	9%	25%	Leisure	91%	75%	Events	0%	0%		<u>2003</u>	<u>2009</u>	Education	50%	35%	Leisure	50%	60%	Events	0%	5%	<p>SMA management audit</p> <p>Midterm and final evaluations</p>
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Description	Indicators	Means of verification	Assumptions
	<p>a. Record-keeping on the number and type of park visitors (none at this time to 20,000/year);</p> <p>b. The reduction in the number of environmental violations in the park from the current figure of 75/year to a maximum of 25/year;</p> <p>c. Record-keeping on the number of public use violations of the park (none at this time to 50/year by the end of year 4);</p> <p>d. Interagency coordination as a result of the addition of the park visitation plan to the municipal master plan.</p> <p>Improvement in the environmental management of the Ribeira Valley parks as a result of the implementation of the park management and visitation plan by the end of the project implementation period (2009), as measured by:</p> <p>a. The reduction in squatting and illegal activities with a view to the minimal-impact use of areas surrounding the visitation hubs;</p> <p>b. The reduction in the number of environmental violations in the parks;</p> <p>c. Record-keeping on the number of public use violations of the parks (none at this time to 50/year/park by the end of year 4);</p> <p>d. The reduction in the number of cases of vandalism in the parks.</p> <p>Issuance of departmental directives by the SMA midway through the project implementation period (2007):</p>	<p>Park Visitation System data – Survey of visitors entering the park.</p> <p><i>In situ</i> evaluation of lands adjacent to the visitation hubs, photointerpretation and DPRN [(Natural Resource Protection Department] (environmental permits) and FNMA [National Environment Fund] (environmental projects) data</p> <p>Data supplied by park managers and the staff of the SMA public visitation management unit</p> <p>Midterm and final evaluations</p> <p>Midterm evaluation</p>	

Description	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> a. establishing a public visitation and ecotourism unit with a full-time staff of at least 3 officials with formal training in tourism; b. making it mandatory to keep visitor records and collect regular statistical data and requiring the full-time staff of each park to include at least one tourism expert. <p>Expression of a high degree of satisfaction with available tourism services by visitors to the parks (with at least 75% expressing satisfaction) by the end of the project implementation period (2009). (The base line will be developed prior to the commencement of the project implementation period.)</p>		
Components			
Component 1. Investments in the state parks			
Technical assistance for the planning, design, and management of public visits to the parks	<p>Outsourcing and performance of 16 consultants studies and projects for the establishment of trails, signage systems, communication facilities, regulations and an emergency management plan and the rehabilitation of existing works by the end of year 1 of the project implementation period (2006):</p> <ul style="list-style-type: none"> 1. Study for the drafting of proposed regulations for tourist attractions (regulations governing the use of each park); 2. Study of improvements to tourist attractions in all 6 parks (identification of necessary investments in their rehabilitation for tourism purposes and of the impact of their visitation); 3. Study for the design of a trail system (identification of existing and new trails, trail selection, necessary investments in selected trails and proposals for trail construction – projects); 	PCU and consultant reports	

Description	Indicators	Means of verification	Assumptions
	<ol style="list-style-type: none"> 4. Benchmarking study for the construction of long trails (seminar); 5. Project for special trail construction in all 6 parks (geographic location, trail dimensions, associated investments –canopy walkways, tree-walking, mangrove swamps); 6. Study for the framing of a management plan for Ilha do Cardoso State Park; 7. Study for the framing of a management plan for Ilhabela State Park; 8. Project for rehabilitation of the Sao Miguel Arcanjo hub in PECB, including an eco-lodge, 2 restaurants, a reception and administration center and associated infrastructure works; 9. Project for rehabilitation of the Estrada de Castellanos road in PEIb, including road safety works and visitor services; 10. Executive study for the establishment of an underwater trail in PEIb, including 2 piers, safety works and visitor services; 11. Project for rehabilitation of the Ilha da Casa hub in PEIC, including a visitor reception and administration center and 1 restaurant; 12. Project for rehabilitation of the Marujá hub in PEIC, including a reception and administration center, museum, sanitary facilities and wastewater collection and treatment system; 13. Project for refurbishing the pier at the Pereque hub in PEIC; 14. Project for rehabilitation of the lighting system for Devil’s Cavern in PEJ; 		

Description	Indicators	Means of verification	Assumptions
	<p>15. Project for rehabilitation of the Santana hub in PETAR, including an environmental interpretation center, visitor reception and administration center, sanitary facilities, and related works;</p> <p>16. Project for rehabilitation of the Ouro Grosso hub in PETAR, including a lodge, sanitary facilities, a reception and administration center and related works.</p> <p>Outsourcing and performance of 10 studies and projects by the end of year 2 (2007):</p> <ol style="list-style-type: none"> 1. Study for the framing of a contingency plan for emergencies; 2. Study for the framing of a signage plan for the parks; 3. Design of exhibits for the environmental interpretation centers; 4. Project for rehabilitation of the Estrada da Macaca road in PECB, including road safety works and visitor services; 5. Project for rehabilitation of Site 2 – Ribeirao Grande (PEI), including the refurbishing of 2 lodges; 6. Project for rehabilitation of Site 3 – Ribeirao Grande (PEI), including a recreation area and refurbishing of the convention center; 7. Project for rehabilitation of the Guapiruvu and Quilombo hubs in PEI, including a visitor reception center, guardpost and parking lot; 8. Project for rehabilitation of the Cananea hub in PEIC, including a visitor reception center, restaurant and guard post; 9. Project for rehabilitation of the Capelinha hub in PEJ, including a visitor reception center, restaurant and guard post; 	<p>PCU and consultant reports</p>	

Description	Indicators	Means of verification	Assumptions
	<p>10. Project for rehabilitation of the Cablocos hub in PETAR, including a reception and administration center, lodge, campground, sanitary facilities and parking lot.</p> <p>Outsourcing and performance of 1 project by the end of year 3 (2008):</p> <p>1. Project for rehabilitation of the Casa de Pedra hub in PETAR, including a visitor reception center, restaurant and guard post,</p>	PCU and consultant reports	
General investments in the parks package	<p>Award and performance of 1 contract for the establishment of trails, signage systems, communications facilities, regulations, an emergency management plan and new construction work and renovations of existing structures by the end of year 2 of the project implementation period (2007):</p> <p>1. Construction of special trails (1 canopy walkway and six 2,000- meter-long tree-walking projects.)</p> <p>Award and performance of 3 contracts by the end of year 3 (2008):</p> <p>1. Construction of a trail system, a long trail and tourist amenities (all 6 parks - 250 km);</p> <p>2. Establishment of a park signage system (name plates and interpretative plaques);</p> <p>3. Production of exhibits for interpretation centers in all 6 parks</p>	<p>Progress report by the PCU and construction auditing reports</p> <p>Progress report by the PCU and construction supervision reports</p>	
Park-specific investments	<p>Award and performance of 5 contracts for the establishment of trails and signage systems and the refurbishing of existing structures by the end of year 1 of the project implementation period (2006):</p> <p>1. Restoration of an historical building for use as the Ilhabela park headquarters and environmental interpretation center;</p>	Progress report by the PCU and construction auditing reports	

Description	Indicators	Means of verification	Assumptions
	<ol style="list-style-type: none"> 2. Rehabilitation of Site 1 – Ribeirao Grande, in PEI (Pousada Lontra and environmental interpretation center); 3. Rehabilitation of the “Caverna do Diabo”(Devil’s Cavern) hub in PEJ (1 restaurant, environmental interpretation center, sanitary facilities, parking lot, guard post); 4. Installation of the lighting system for Devil’s Cavern in PEJ; 5. Rehabilitation of the Santana hub in PETAR (environmental interpretation center, visitor reception center, parking lot, sanitary facilities). <p>Award and performance of 8 contracts by the end of year 2 (2007):</p> <ol style="list-style-type: none"> 1. Rehabilitation of the San Miguel Arcanjo hub in PECB (1 eco-lodge, 1 restaurant, reception and administration center); 2. Construction work and rehabilitation of the Estrada de Castellanos road in PEIb (road safety works and visitor services); 3. Construction work in the Pereque hub in PEIC (1 lodge, sanitary facilities, interpretation center, reception and administration center, aesthetic improvements); 4. Refurbishing of the pier at the Pereque hub in PEIC; 5. Rehabilitation of the Cananéia reception center in PEIC; 6. Construction work in the Caboclos hub in PETAR (lodge, campground, parking lot, sanitary facilities, reception and administration center); 	<p>Progress report by the PCU and construction supervision reports</p>	

Description	Indicators	Means of verification	Assumptions
	<p>7. Construction work in the Ouro Grosso hub in PETAR (lodge, sanitary facilities, reception center, aesthetic improvements);</p> <p>8. Construction work in the Sete Barras hub in PECB (1 eco-lodge, 1 restaurant, 1 reception and administration center).</p> <p>Award and performance of 2 contracts by the end of year 3 (2008):</p> <p>1. Rehabilitation of the Estrada da Macaca road in PECB (safety works and visitor services);</p> <p>2. Rehabilitation of Site 2 – Ribeirao Grande, in PEI (renovation of the restaurant).</p> <p>Award and performance of 2 contracts by the end of year 4 (2009):</p> <p>1. Construction work in the Marujá hub in PEIC (reception and administration center, museum, sanitary facilities, wastewater treatment system);</p> <p>2. Rehabilitation of the Guapiruvu and Quilombo hubs in PEI (visitor reception center, guardpost and parking lot).</p>	<p>Progress report by the PCU and construction supervision reports</p> <p>Progress report by the PCU and construction supervision reports</p>	
Component 2. Tourism product development and promotion in the service areas of the parks			
Training and awareness-raising activities for local communities	<p>6 regional informational and motivational seminars (1 per subregion) for the 63 communities in the buffer zones for the parks.</p> <p>12 courses providing training in business plans for 63 communities (6 subregions) by the end of year 2 of the project implementation period (2007).</p> <p>12 technical assistance modules for the framing of 12 community business plans by the end of year 3 of the project implementation period (2008).</p>	<p>Report by the consultants in charge of the seminars and progress reports by the PCU</p> <p>Report by the consultants in charge of the courses and progress reports by the PCU</p> <p>Report by the consultants in charge of the modules and progress reports by the PCU</p> <p>Business plans</p>	<p>The FVR or other sources of outside financing are willing to consider proposals for the funding of SMEs operating ecotourism services.</p> <p>There is an interest on the part of municipios and tourism companies in getting involved in the project.</p>

Description	Indicators	Means of verification	Assumptions
	<p>3 <i>tourism service management training</i> courses for local communities and SMEs operating within the parks by the end of year 1 of the project implementation period (2006).</p> <p>3 tourism service management training courses for local SMEs operating outside the parks by the end of year 2 of the project implementation period.</p> <p>14 training courses in the <i>operation of tourism services</i>, or 7 courses by the end of year 1 (2006) of the project implementation period and another 7 courses by the end of year 2 (2007).</p> <p>3 regional <i>informational and motivational</i> seminars (1 per region) for the 14 municipios forming the project service area by the end of year 1 of the project implementation period (2006).</p> <p>9 training courses in framing municipal tourism management plans for 14 municipios, or 3 courses by the end of year 1 of the project implementation period (2006), another 3 courses by the end of year 2 (2007) and the last 3 courses by the end of year 3 (2008).</p> <p>6 technical assistance modules for the preparation of 6 projects for improvements to municipal tourism infrastructure, with 2 projects prepared by the end of year 2 of the project implementation period (2007), another 2 projects by the end of year 3 (2008) and the last 2 projects by the end of year 4 (2009).</p> <p>3 proposals assessing the medium and long-term technical assistance and training needs of local communities, SMEs and municipios by the end of year 4 of the project implementation period.</p>	<p>Report by the consultants in charge of the courses and progress reports by the PCU</p> <p>Report by the consultants in charge of the courses and progress reports by the PCU</p> <p>Report by the consultants in charge of the courses and progress reports by the PCU</p> <p>Report by the consultants in charge of the courses and progress reports by the PCU</p> <p>Report by the consultants in charge of the courses and progress reports by the PCU</p> <p>Report by the consultants in charge of the courses and progress reports by the PCU</p> <p>Municipal projects</p> <p>Report by the consultants in charge of the studies and progress reports by the PCU</p>	
Framing and implementation of a marketing plan	<p>A marketing plan in year 1 of the project implementation period, including:</p> <ol style="list-style-type: none"> 1. a study of the micro and macro environment; 2. a tourism product strategy; 	Copy of the marketing plan developed in conjunction with the advisory boards, the SMA, and the Bank	The project is successful in engaging private enterprises in a joint promotional campaign for the project area.

Description	Indicators	Means of verification	Assumptions
	<p>3. a distribution strategy (integrated lodging reservations system);</p> <p>4. a promotion strategy;</p> <p>5. a proposal for the development of a market information system;</p> <p>6. an action plan;</p> <p>7. a brand design and applications.</p> <p>Programming of a computerized visitor statistics module by the end of year 2.</p> <p>Publication of a product catalogue by the end of year 2.</p> <p>Publication of a tourist map by the end of year 2.</p> <p>Establishment of a data base for marketing facilities and communications media by the end of year 2.</p> <p>Design of a computerized reservations system by the end of year 3 of the project implementation period (2008).</p> <p>Establishment of a website by the end of year 3 of the project implementation period (2008).</p> <p>An advertising campaign by the end of year 3 of the project implementation period (2008).</p>	<p>Regular reports by the PCU</p> <p>Existence of the catalogue</p> <p>Existence of the tourist map</p> <p>Regular reports by the PCU and existence of the data base</p> <p>Regular reports by the PCU and operational reservations system</p> <p>Regular reports by the PCU and existence of the website</p> <p>Regular reports by the PCU</p>	
Component 3. Ecotourism management capacity-building at the SMA			
Strengthening of the SMA's ecotourism management capacity	<p>Establishment of a public visitation management unit within the SMA in year 1.</p> <p>Hiring of all six (6) public visitation coordinators by year 2 of the project implementation period (2007).</p> <p>Framing of state policy and regulations for ecotourism management and park use by the end of year 1 of the project implementation period (2006).</p> <p>Formulation of a proposal for a park entrance fee schedule by the end of year 1 of the project implementation period (2006).</p>	<p>Reports by the PCU and project midterm evaluation</p> <p>Reports by the PCU and project midterm evaluation</p> <p>Midterm evaluation</p> <p>Reports by the PCU</p> <p>SMA status reports</p>	

Description	Indicators	Means of verification	Assumptions
	Finalization of an agreement with the Office of the Executive Secretary of Tourism to assist with coordination efforts and promotional activities by the end of year 1 of the project implementation period (2006).	Reports by the PCU and project midterm evaluation	
Training of park personnel in public visitation management	3 courses, 2 seminars/workshops and 1 distance training course per year and per region throughout the project implementation period, for a total of 48 courses by the end of the project period serving 150 park officials.	Reports by the PCU and project midterm evaluation	
Streamlining of park management systems	<p>Establishment of information, administration, and management systems (including a claims and complaint system) in all 6 parks by the end of year 1 of the project implementation period.</p> <p>Signature of contracts for the operation of business units (“<i>termos de parceria</i>” or cooperation agreements and “<i>permissão de uso qualificada</i>” or limited use permits) for a minimum of 9 lodging facilities and all restaurants in the 6 priority tourist centers (Intervales, 4; PETAR, 2; Carlos Botelho, 2; and Ilha do Cardoso, 1) in year 4 of the project implementation period.</p> <p>Performance evaluation of services operated as concessions beginning in year 2 of the project implementation period.</p>	<p>On-site inspections confirming that the intranet is operational</p> <p>Reports by the PCU and project midterm evaluation</p> <p>Reports by the PCU and project midterm evaluation</p> <p>Project midterm and final evaluations</p>	<p>There is a full-coverage, public communications system for the six parks.</p> <p>Local SMEs are interested in getting involved in the project and are able to secure funding.</p>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION

Brazil. Loan /OC-BR to the State of São Paulo of the Federative Republic of Brazil
Ecotourism Development Project for the Mata Atlântica Region of São Paulo

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 São Paulo, as Borrower, and the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of an ecotourism development project for the Mata Atlântica Region of São Paulo. Such financing will be in the amount of up to US\$9,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Executive Summary of the Loan Proposal.