

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**ESPÍRITO SANTO
REGIONAL TOURISM DEVELOPMENT PROGRAM
(PRODETUR-ES)**

(BR-L1219)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Annual work plan (AWP) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38686959
2.	Monitoring and evaluation plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38689367
3.	Procurement plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38686959
4.	Environmental and social management report (ESMR) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38685762
OPTIONAL	
1.	ICAS institutional capacity analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38690331
2.	Program economic analysis (in Portuguese) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38690664
3.	Investments matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38686999
4.	Financial analysis of the state http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38690371
5.	Social and environmental study report http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38556864
6.	Progress monitoring report (PMR) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38686984
7.	Program Operations Manual (POM) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38690375
8.	Safeguard screening form for classification of projects (SSF) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38198728

ABBREVIATIONS

AWP	Annual work plan
CEL	Special Bidding Commission
CESAN	Companhia Espírito Santense de Saneamento [Espírito Santo Sanitation Company]
CIS	Interagency Monitoring Commission
CONTURES	Conselho Estadual de Turismo do Espírito Santo [State Tourism Council of Espírito Santo]
DEM	Development Effectiveness Matrix
ES	Espírito Santo
ESMR	Environmental and social management report
FIRJAN	Federação das Indústrias do Rio [Industrial Federation of Rio de Janeiro]
GIA	Grants-in-aid
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Geography and Statistics Institute]
ICAS	Institutional Capacity Assessment System
IFDM	FIRJAN municipal development index
IJSN	Instituto Jones do Santos Neves
IPEA	Instituto de Pesquisas Econômicas Aplicadas [Institute of Applied Economic Research]
IRR	Internal rate of return
MPGAS	Environmental and Social Management and Planning Manual
MTUR	Ministry of Tourism
OC	Ordinary Capital
OR	Operating Regulations
PCR	Project completion report
PCU	Program coordination unit
PDITS	Integrated Sustainable Tourism Development Plan
PMR	Progress monitoring report
POM	Program Operations Manual
PRODETUR	Tourism Development Program
R\$	Brazilian reais
RMV	Metropolitan Region of Vitória
SETUR	Secretaria do Turismo [Tourism Department of the State of Espírito Santo]
SIET	Sistema de Informações e Estatísticas Turísticas [Tourism Information and Statistics System]
TTA	Typical tourism activities
WAL	Weighted average life

PROJECT SUMMARY

BRAZIL

ESPÍRITO SANTO

REGIONAL TOURISM DEVELOPMENT PROGRAM

(PRODETUR-ES)

(BR-L1219)

Financial Terms and Conditions					
Borrower: State of Espírito Santo Guarantor: Federative Republic of Brazil			Flexible Financing Facility*		
			Amortization period:	24 years	
Executing agency: The borrower, acting through the Tourism Department of the State of Espírito Santo (SETUR)			Original WAL:	15.25 years**	
			Disbursement period:	5 years	
Source	Amount	%	Grace period:	114 months**	
IDB (Ordinary Capital)	US\$48.0 million	60	Interest rate:	LIBOR-based	
Local	US\$32.0 million	40	Inspection and supervision fee:	***	
Total	US\$80.0 million	100	Credit fee:	***	
			Currency:	U.S. dollars from the Ordinary Capital (OC)	
Project at a Glance					
Objective: The general objective of the program is to help generate formal employment through tourism activity. The specific objective is to increase tourism spending in the beneficiary municípios through investments to diversify the current tourism offerings with a focus on culinary tourism.					
Special contractual conditions precedent to the first disbursement: In accordance with the terms previously agreed upon with the Bank: (i) publication of the act of law creating the Special Bidding Commission (CEL) (see paragraph 2.4); (ii) publication of the state decree granting SETUR the legal authority to contract for works (see paragraph 3.1); (iii) evidence of creation of the program coordination unit (PCU), the structure of responsibilities, and the appointment of its general coordinator and other specialists in accordance with the agreed job descriptions (see paragraph 3.1); (iv) evidence of entry into force of the final version of the program Operations Manual, including the Environmental and Social Management and Planning Manual (MPGAS), as well as operational guidelines governing grants-in-aid for local entrepreneurs (see paragraph 3.3); and (v) evidence that the short list phase for selecting the management firm to support the PCU has been completed (see paragraph 3.2).					
Special execution conditions: In accordance with the terms agreed upon with the Bank, and prior to the first competitive bidding process for investments/works, the borrower will provide evidence of: (i) contracting of the management firm to support the PCU (see paragraph 3.2); (ii) implementation of the Integrated Project Management System (see paragraph 2.4); (iii) entry into force of cooperation agreements between the borrower/SETUR and the relevant sector administrations (see paragraph 3.1); (iv) entry into force of the cooperation agreements between the borrower/SETUR and each município (see paragraph 3.1); and (v) establishment of the Interagency Monitoring Commission (CIS) for the program, within six months after signature of the loan contract (see paragraph 3.2).					
Time period for physical start of works: The maximum time period for the physical start of works under the program will be four years (see paragraph 2.1).					
Exceptions to Bank policies: None.					
Project qualifies as:					
	SEQ []	PTI []	Sector []	Geographic []	Headcount []

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

** Both the WAL and the grace period may be shorter, depending on the loan contract signature date.

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, challenges, and rationale

- 1.1 Espírito Santo (ES) is one of the four states constituting the Brazilian Southeast, which is one of the country's most highly developed regions and, in 2011, accounted for 55.4% of Brazil's GDP.¹ The state has enjoyed strong social and economic performance in recent years, as demonstrated by an average increase of 5.1% in its GDP between 2002 and 2010,² with real mean income per capita rising from R\$517 in 2003 to R\$781 in 2011, and an average annual decline of 2.71% in absolute poverty and extreme poverty rates between 1995 and 2008.³ Despite this, ES contributed just 4.3% to the Southeast region's GDP in 2011, and real mean income per capita was 15.5% below the figure for the Southeast region as a whole (R\$902 in 2011). Income inequality persists (Gini index of 0.489 in 2011),⁴ and there are still pockets of poverty in the state, as revealed by the 2010 census data, which show that one third of the population is living in absolute poverty.⁵
- 1.2 The economy of ES is dominated by the services sector which, in 2010, was responsible for 57.7% of the state's gross value added.⁶ Among those services, the food and lodging sector accounted for 1.78% of gross value added in 2008,⁷ and "typical tourism activities" (TTA) represented 3.9% of formal employment in the state⁸ (with a total of 24,192 jobs).⁹ Formal employment growth in TTA in ES outpaced formal employment generated by the state economy as a whole between 2002 and 2008 (47.7% versus 35.8%),¹⁰ indicating that tourism may represent a real opportunity to contribute to formalization of employment.
- 1.3 ES has an important historical and cultural heritage, a wide diversity of beaches along its 411 km of coastline (constituting the principal tourist attraction today), and ecosystems of tourism interest such as the mangrove swamps surrounding the urban area of the capital city, Vitória. On the basis of these resources, ES attracted

¹ Source: Brazilian Geography and Statistics Institute (IBGE), 2010.

² Instituto Jones do Santos Neves (IJSN).

³ Institute of Applied Economic Research (IPEA), 2010: absolute poverty is defined as a nominal monthly per capita household income of up to one half of the minimum wage, and extreme poverty as up to one fourth of the minimum wage.

⁴ IJSN.

⁵ IBGE: proportion of persons with nominal monthly per capita household income of up to one half of the minimum wage in Espírito Santo in 2010: 31.8%. The IPEA uses the term "absolute poverty" for this income bracket.

⁶ At basic prices, source IJSN.

⁷ Pavao, 2013.

⁸ In the base year, 2008, informal employment in the state was 47.3% of the total, on the same level as the Southeast region as a whole (48%).

⁹ IPEA, 2011. Employment in the Brazilian tourism sector, base year 2008.

¹⁰ IPEA, 2011. ES ranked fourth highest among states for growth in formal employment in TTA between 2002 and 2008.

a total of 2.5 million tourists in 2012, who generated expenditure of R\$1.4 billion. In the context of the economic development of ES, tourism is a relatively recent activity (the economy shifted from coffee to a period of industrialization, and then for a time to services linked to commodities exports). Consequently, the state's tourism development is modest in comparison with its geographic setting: (i) the Southeast region accounts for 35% of income from domestic tourism, only 1.8% of which is represented by ES;¹¹ (ii) the average domestic tourism expenditure per trip in ES is less than the level recorded at the national level and for the Southeast region as a whole (R\$1,137 versus R\$1,232 and R\$1,351, respectively);¹² (iii) although ES lies in the region that constitutes the principal port of entry for international tourism in Brazil (the Southeast accounts for 59% of inbound tourism),¹³ few foreign tourists visit this state (ES captures 0.73% of this 59%, which represents 2.2% of total tourist arrivals in the state);¹⁴ and (iv) the Southeast contributes 58.6% of formal employment in TTA nationwide, only 2.1% of which is contributed by ES.¹⁵ These indicators are influenced by a number of tourism management challenges in ES:

- a. **Tourism offerings.**¹⁶ ES has not yet succeeded in instilling a clear strategic vision among the stakeholders involved in its tourism development. There is no systematic, high-quality information on preferences and determinants of differentiated demand segments, making it difficult to select a strategic portfolio of products on which to focus efforts. For this reason, tourism activity has been developing spontaneously, responding mainly to the flow of vacationers from within the state and from neighboring states (86% of total domestic arrivals)¹⁷ who come to enjoy the beaches or to visit family or friends (51% of the total).¹⁸ This dominant demand pattern generates a very short tourism season: the high season is limited to the month of January, and the “middle season” to the months of June and July, and in these three months ES receives 50.1% of its total annual tourism flows.¹⁹ The seasonal nature of TTAs influences their degree of formality, which despite the growth noted above (see paragraph 1.2), needs to be increased further (for every formal job in TTA there are 2.9 informal jobs).²⁰ Moreover, a number of [indicators](#) suggest that this majority demand profile is less inclined to spend on tourism

¹¹ MTUR-FIPE data, 2012. Domestic Demand Study.

¹² Idem.

¹³ Ministry of Tourism, 2013, Statistics Yearbook (base year 2012).

¹⁴ SETUR, 2012.

¹⁵ IPEA, 2010. Labor Market in the Tourism Sector.

¹⁶ SETUR data, Current Demand Survey 2012.

¹⁷ MTUR-FIPE data, 2012. Domestic Demand Study.

¹⁸ SETUR, 2012.

¹⁹ SETUR.

²⁰ IPEA, Spatial Distribution of the Tourism Sector, base year 2006.

and less capable of generating employment. For example, average daily tourism expenditure during the high and middle seasons (R\$131.9) is far less than in the low season (R\$190.4), and the formal employment multiplier for leisure tourism is lower than for business travel (30 versus 35).²¹ To optimize the performance of tourism activity, those demand segments with the greatest capacity to contribute to the capixaba²² economy will have to be consolidated, on the basis of rigorous market information. In addition, little is known about the involvement of low-income households in the tourism chain.

- b. **Tourism promotion strategy.** Given the high fragmentation of the tourism industry and limited coordination, there are difficulties in providing clear information to visitors and establishing a consolidated tourism image. This is impacting the ability of ES to penetrate both the international and domestic tourism markets. Domestically, not a single ES município makes the list of the 30 most-visited destinations or, even worse, the list of the 20 destinations “most desirable” to Brazilian tourists.²³ [Research conducted by ES](#) to assess the potential tourism demand in six Brazilian states found that lack of knowledge about the destination was one of the main reasons cited for the lack of interest in visiting and/or recommending the state²⁴ (67% of responses). It is important to present an attractive and consistent image of ES in the various tourism marketing channels (including the online channels, since 39.1% of domestic visitors and a third of foreign visitors to Brazil use the Internet).²⁵
- c. **Public management of tourism.** SETUR is the agency responsible for planning, promoting, and overseeing the development of tourism in ES, although other sector administrations²⁶ also have an influence in the territorial planning of destinations. For this reason, cooperation among the various administrative levels needs to be strengthened, in order to facilitate the convergence of priorities and information necessary for decision-making, which is currently nonexistent or scattered among a number of sources with differing capture and analysis methodologies. This problem impedes comparability of ES statistics with other states (see [terms of reference](#), Federal Plan for Tourism Statistics of the Ministry of Tourism). There is also a serious shortcoming in the impact evaluation of sector investments, and the ability of

²¹ SETUR and ex ante economic evaluation.

²² The nickname for residents of the state of Espírito Santo.

²³ MTUR-FIPE data, 2012. Domestic Demand Study.

²⁴ Market Potential Survey 2012, SETUR-SEBRAE.

²⁵ Consumer consumption habits survey of Brazilian tourists, 2009, and Tourism Yearbook 2013, Ministry of Tourism.

²⁶ Examples are Companhia Espírito Santense de Saneamento [Espírito Santo Sanitation Company] (CESAN), Urban Development Department (SEDUR), Department of the Environment and Water Resources (SEAMA), etc.

municípios to manage tourism at the point of destination is very weak, due to both a lack of ways and means and weak skills of human resources.²⁷

- d. **Basic services.** Despite the public investment drive begun in 2004 to expand and improve wastewater collection and treatment services, the state still faces a challenge in this area. The capital, Vitória, has sewer coverage of 79%, but beyond this built-up area the shortfall becomes more acute. In the rest of the municípios constituting the Metropolitan Region of Vitória (RMV), coverage nowhere exceeds 61%.²⁸ This shortfall leads to pollution of water bodies and the environment.
 - e. **Social and environmental management.** The [social and environmental analysis](#) conducted during preparation of this program reveals environmental degradation in tourism areas as a result of unplanned urban development, extractive activities and growing man-made pressures on sensitive natural resources. The capacity for environmental management is weak, and although there are protected areas not all of those with tourism potential have up-to-date plans for management and public use, or adequate facilities for tourism and for effective environmental supervision. Moreover, the coastal area is especially vulnerable to flooding. Lastly, the state is working to establish a more sustainable fishing industry in order to ensure the survival of local traditional fishing communities.
- 1.4 **The Bank's experience in the sector and lessons learned.** The proposed program represents a continuation of the Bank's support for tourism development in Brazil, which began in 1994 with the approval of two operations to promote socioeconomic development in the Northeast region of the country. The first operation was the Northeast Tourism Development Program (PRODETUR-NE I) (loan 841/OC-BR), with a cost of US\$700 million and Bank financing of US\$400 million. The [ex post evaluation](#) performed by the Audit Office of the Union concluded that the operation had driven private investments of US\$4 billion, generating one million jobs and helping to bring more tourists to the Northeast: their numbers rose from 6 million to 12 million between 1994 and 2000. Based on this experience, the Bank approved PRODETUR-NE II (loan 1392/OC-BR) in March 2002, with the key objective of improving the quality of life of the population. The program focused initially on planning and environmental sustainability before expanding into new areas. The operation disbursed all the loan proceeds, meeting its development objectives and achieving satisfactory performance according to the [final evaluation](#) contained in the project completion report (PCR).

²⁷ See [Summary of the Integrated of Sustainable Tourism Development Plan \(PDITS\)](#) (pp. 104-111).

²⁸ Companhia Espírito Santense de Saneamento (CESAN), Strategic Planning Coordination, December 2013.

- 1.5 In 2009, the Bank approved Support for the National Tourism Development Program (loan 2229/OC-BR), with US\$15 million in financing from the Bank, to build the capacity of the Ministry of Tourism (MTUR) to support state tourism planning, under a shared federal strategy. ES is the eighth state to prepare a PRODETUR operation under the common guidelines developed under the operation with MTUR, together with Ceará, Rio de Janeiro, Pernambuco, Bahia, Paraíba, Sergipe, and Pará. All these programs share the same component structure, for subsequent comparability, and the same methodological instruments, including: (i) Operating Regulations (OR) with instructions concerning the eligibility and technical design of tourism investments in light of differentiated project typologies; (ii) an environmental and social management and planning manual (MPGAS), which consolidates and incorporates the instructions and requirements of the Bank's socioenvironmental policies; and (iii) an impact evaluation methodology based on technical guidelines (document IDB-TN-229). The lessons learned from [evaluations](#) have been incorporated into the project.

Table 1. Integration of Lessons Learned ([Sector Note on Tourism](#))

Lesson learned	Reflected in program design
Investments must be planned and staggered to prevent and mitigate the adverse impacts from accelerated tourism growth.	The program is based on prior planning (Plan for Sustainable Tourism Development in the State of ES 2025, Tourism Marketing Plan 2025, and Integrated Sustainable Tourism Development Plan (PDITS) for the Metropolitan Region of Vitória), and incorporates an effective investment timeline for the five years of execution.
To prevent isolated, low impact investments, tourism projects must be part of a model targeted territorially and to specific demand segments.	The program prioritizes investments in culinary tourism and explores new opportunities for nautical tourism in the Metropolitan Region of Vitória. These decisions are backed by secondary sources, by the plans mentioned above, and by empirical evidence.
Tourism development must include a tangible socioenvironmental commitment in both planning and investment.	The program is based on the MPGAS for PRODETUR. A strategic environmental assessment has also been done. Environmental impact studies, supervision, and audits will be performed for works with significant impacts. The socioenvironmental management component (US\$9.1 million) envisages environmental mitigation and conservation measures.
Tourism programs must balance infrastructure investments with local governance.	The program includes investments for institution-strengthening (US\$2.4 million), including reinforcement of the Tourism Information and Statistics System (SIET).
Impact evaluations are essential for establishing the relationship between tourism and poverty alleviation.	The program includes diagnostic assessments of the tourism value chain for social inclusion and incorporates emerging approaches to impact evaluation (paragraphs 1.6, 2.2, and 3.4).

1.6 **Program design.** The design of the program is based on the lessons learned from the PRODETUR National NE I and NE II operations, as well as similar operations elsewhere in Latin America and the Caribbean. In addition, the program incorporates the findings of various studies based on rigorous evaluation methodologies, which show that tourism can be a vehicle for job creation and poverty reduction. More specifically, a [study](#)²⁹ conducted in Brazil reveals that the cost of creating a job in the hotel industry is one of the lowest in comparison with other, nontourism sectors,³⁰ and that in the Southeast region this sector has a direct employment multiplier of 1.24 on the economy as a whole. Another [study in the Brazilian context](#) on the relationship between tourism and poverty³¹ indicates that the country reaps US\$45 in benefits for every US\$100 in additional tourism expenditure (i.e., there is a tourism multiplier of 0.45). The results also show that tourism benefits the lower-income household segments. However, the study calls attention to the need to put those households at the epicenter of tourism development strategies, if poverty levels are to be reduced. These findings are convergent with the [ex ante economic evaluation](#) of PRODETUR Espírito Santo, which concludes that the program can help reduce the incidence of poverty, but that the current structure of the tourism value chain is not conducive to reducing inequality. The program draws upon the lessons for addressing the challenges identified, in the following manner:

a. **Optimizing the returns per tourist.** The program is based on the planning efforts made and on the tourism potential of ES for consolidating the tourism demand segments with the greatest capacity to generate expenditure and formal employment (see paragraph 1.3(a)). Some of these segments are most important in the low season: for example, there is a greater proportion of business travelers (48% of the total versus 13.8% in the high season). Thus it is important to work with types of tourism that will serve to strengthen the tourism offerings in the low season, without downplaying efforts to improve the quality and depth of the high-season offerings. In this context, culinary tourism can foster synergies with other types of tourism (leisure and business), regardless of the season, and for this reason it has been selected for the program. This choice is backed by:

- (i) A [recent study](#) (2013) on the socioeconomic structure of ES,³² which shows that the food and lodging sector, together with the fisheries and agriculture sectors, has the greatest multiplier effect on production and

²⁹ Accommodation: Structure of Consumption and Impacts on the Economy, 2006, Brazilian Hotel Industry Association, EMBRATUR, FIPE, Ministry of Tourism, SEBRAE.

³⁰ The hotel sector requires a value of output of R\$16,000, compared to R\$28,000 in the construction or textile sectors, or R\$68,000 in the steel industry.

³¹ Blake et. al. (2008) "Tourism and Poverty Relief," *Annals of Tourism Research*, Vol. 35, issue 1, pp. 107-126.

³² Pavao (2013), "Estrutura socioeconômica do Estado de Espírito Santo" [Socioeconomic structure of the State of Espírito Santo], pp. 79 et seq.

employment generation. This increases the attractiveness of strengthening linkages between providers of culinary tourism services and local suppliers of raw materials.

- (ii) All the [tourism planning instruments present](#) in this state emphasize the differentiated value of capixaba cuisine within the RMV. [Domestically](#), Brazilian tourists say that two of the most important activities they pursue during their trips are going to restaurants and bars (28% of the total) and trying local dishes (11%). Internationally, well-known [guidebooks](#) cite capixaba gastronomy as an attraction “worth the trip” because of the quality of its fish and seafood.
- (iii) The private sector is organizing itself to promote the formal designation of culinary clusters in the state. Draft [regulations](#) have been prepared to foster public-private partnership in this type of tourism.
- (iv) There is ample [empirical evidence both nationally and internationally](#) on the capacity of culinary tourism to differentiate destinations, reduce seasonality, attract demand inclined to spend more, and accelerate the integration of various stakeholders into the same tourism chain.

- b. **Ensuring that the benefits of tourism actually reach lower-income households.** Among the 10 tourism regions identified by the [Sustainable Development Plan of the State of Espírito Santo \(2025\)](#), the RMV has been selected to increase the program’s impact, as it is currently the state’s principal port of entry and its main tourism destination (the RMV receives 52% of all tourist arrivals).³³ The region has seven municípios³⁴ that encompass 46% of the state population, i.e., 1.3 million residents.³⁵ The capital, Vitória, has an Gini index of inequality (0.61) higher than the national index (0.57).³⁶ For the remaining municípios of the RMV, the FIRJAN municipal development index (IFDM) of employment and average income is below the national IFDM (0.7599 versus 0.7914).³⁷ Moreover, the program is based on [previous experience](#) that has shown the viability, in ES, of using culinary tourism as a tool for social inclusion: this is the case with the restaurant run by the Fishermen’s Association of Lagoa do Juara lake in Serra, currently home to 30 families, and the restaurants on Ilha das Caieiras island, in Vitória, sponsored by local associations. The program seeks to consolidate and scale up the results obtained. To this end, in addition to crosscutting activities in the RMV, the program will focus on reinforcing the tourism value chain in Ilha das Caieiras and Lagoa do Juara, as well as Barra do Jucú in Vila

³³ SETUR.

³⁴ The capital Vitória, Vila Velha, Serra, Viana, Guarapari, Fundão, Cariacica.

³⁵ 2010 census, IBGE.

³⁶ UNDP data 2013, base year 2010.

³⁷ IFDM 2012. Indexed from 0 to 1, where 1 represents the highest level of municipal development.

Velha and Rio Reis Magos in Fundão/Serra. The following factors led to the selection of these four areas: (i) the presence of local fishing communities with potential to strengthen linkages around culinary tourism (see paragraph 1.6(a)(i)); (ii) an exceptional natural setting, with the potential to complement the culinary experience; (iii) they are located in municípios of the RMV that attract the greatest volume of low-season tourism (86.2% of the total), thereby ensuring that the new initiatives will be viable, and they have the highest number of establishments and jobs in the food and beverages subsector (78% and 83% of the RMV, respectively); and (iv) they have significant [homelessness rates](#), higher than those of their benchmark município (average of 26.5% of the population, 1,922 households).

- 1.7 **Consistency with the Bank's country strategy and with the Ninth General Capital Increase (GCI-9).** The program is consistent with the Bank's country strategy with Brazil (document GN-2662-1), inasmuch as making the ES tourism sector more competitive contributes to the objective to promote development through the private sector. The outcome indicators are an increase in formal employment and tourism spending. The program will contribute to the lending program priority established in the Ninth General Capital Increase (document AB-2764) of support for climate change initiatives and environmental sustainability, by strengthening environmental management of the municípios and seven beneficiary protected areas (see paragraph 1.14). The program will also contribute to regional development goals for: (i) the share of formal employment in total employment; and (ii) the share of terrestrial and marine protected areas in the national territory. The program will contribute to the Bank's outputs relating to: (i) the number of jobs added to the formal sector; (ii) households with new or upgraded sanitary connections; (iii) micro, small and medium-sized productive enterprises financed; (iv) municipal or other subnational governments supported; and (v) the number of projects with components contributing to improved management of terrestrial and marine protected areas, by strengthening management of the seven protected areas (totaling 1,335 square kilometers, equal to 2.8% of the total area of the state and 41% of the RMV).³⁸

B. Objectives, components, and costs

- 1.8 **Objectives.** The **general objective** of the program is to help generate formal employment through tourism activity. The **specific objective** is to increase tourism spending in the beneficiary municípios through investments to diversify the current tourism offerings with a focus on culinary tourism.

³⁸ Área de Proteção Ambiental (APA) Marinha Costa das Algas, Parque Municipal Luis Gonzaga, Parque Estadual Paulo César Vinha; Estação Ecológica da Ilha do Lameirão; Parque Natural Municipal Luiz Gonzaga; Parque Municipal de Jacarenema; APA Setiba.

- 1.9 **Components.** To achieve these objectives and to address the challenges identified, the program will finance studies, final designs, works, equipment and technical assistance grouped under the following five components:
- 1.10 **Component 1. Tourism offerings (US\$40.45 million).** This component seeks to broaden the options for tourist consumption, with a focus on culinary tourism, thereby helping to attract demand with a greater capacity to generate expenditure and employment. The component will be measured by the number of tourists arriving in the low season (spending more than in other seasons). The program will combine crosscutting actions to support culinary tourism services in the RMV with specific interventions in areas with pockets of poverty. It will finance: (i) a culinary tourism market study and prospecting for other segments compatible with the low season (nautical tourism); (ii) preparation and implementation of the culinary tourism plan; (iii) design and implementation of three pilot boat centers (including tie-ins with culinary offerings); (iv) facilities for public use in protected areas, as a way to enhance the culinary experience; (v) actions to support entrepreneurship, formalization of employment and social inclusion, technical assistance activities, and a system of grants-in-aid for local entrepreneurs below the poverty line, based on operational guidelines that specify the beneficiary profile and conditions of access;³⁹ (vi) support for vocational training in business management in culinary tourism; and (vii) urban and landscape improvement works and improvements to destinations with museums, visitors centers, etc.
- 1.11 **Component 2. Tourism promotion (US\$8.14 million).** This component seeks to strengthen the tourism positioning of ES by enhancing the effectiveness of the state's tourism promotion, as measured by the increase in the share of potential domestic visitors who say they are interested in exploring the state. The component will finance: (i) an update of the strategic plan for tourism marketing, with a specific focus on the culinary segment and the online strategy; (ii) implementation of the first business plan; and (iii) a system for monitoring and evaluation of the impact of public investments in promotion.
- 1.12 **Component 3. Institution-strengthening (US\$2.44 million).** This component seeks to improve the comparability of available information for analyzing tourism activity, and will be evaluated via the number of statistical operations that comply with international recommendations.⁴⁰ It covers the following activities: (i) design and implementation of an agenda for improving the state's tourism statistics; (ii) institutional strengthening of SETUR and beneficiary municípios through

³⁹ Up to US\$1 million will be allocated for grants-in-aid. The preliminary selection criteria for beneficiaries are: (i) to be a resident in the program target area; (ii) to live below the poverty line (i.e., monthly per capita income of one half the minimum wage or less); (iii) to be formalized, or in the process of formalization, in the case of an existing enterprise or association; and (iv) to present a viable business plan.

⁴⁰ International Recommendations for Tourism Statistics, 2008, World Tourism Organization.

reengineering of internal processes, the provision of management tools (software) and office IT equipment, and human resource training (including technical visits to targeted destinations); and (iii) strengthening of tourism coordination for the state, by supporting local promoters and sponsors acting under the culinary tourism plan.

- 1.13 **Component 4. Infrastructure and basic services (US\$12 million).** This component includes investments to expand the existing wastewater treatment system in Vila Velha (networks, collectors, and outfalls), in order to ensure coverage of the município's central and southern shoreline, site of one of the project target areas (Barra do Jucú) and of several nature conservation areas. The success of this component will be measured by the number of residents benefiting from the expansion of sanitation coverage. For other program destinations, Companhia Espírito Santense de Saneamento [Espírito Santo Sanitation Company] (CESAN) is already making investments with its own, earmarked funds.
- 1.14 **Component 5. Socioenvironmental management (US\$9.16 million).** This component will be measured via the number of municípios that have incorporated environmental indicators on tourism impact into their master plans. It will finance: (i) two management plans and six plans for public use in protected areas; (ii) an analysis of vulnerability to natural disasters in coastal areas, with a focus on flooding; (iii) works for environmental restoration of the banks of the Reis Magos River in the municípios of Serra and Fundão; (iv) environmental audits on selected works; (v) environmental education and awareness raising; (vi) a management and control plan for fishery resources at culinary destinations; (vii) preparation of a system of indicators and baseline survey on the environmental impacts of tourism.
- 1.15 **Program cost and financing.** The total cost of the program is US\$80 million. The Bank will finance US\$48 million (60%) of that amount with Ordinary Capital resources. The State of Espírito Santo will contribute the local counterpart of US\$32 million (40%).

Table 2. Program Cost and Financing (in US\$ millions)

Investment component	IDB	Local contribution	Total	%
I. Program administration	4.60	0.15	4.75	5.94
II. Direct costs	43.10	29.09	72.19	90.24
Component 1. Tourism offerings	36.34	4.11	40.45	50.56
Component 2. Tourism promotion	0.30	7.84	8.14	10.18
Component 3. Institution-strengthening	0.86	1.58	2.44	3.05
Component 4. Basic services	0.00	12.00	12.00	16.62
Component 5. Socioenvironmental management	5.60	3.56	9.16	11.45
III. Monitoring, evaluation, and audit	0.30	0.76	1.06	1.33
IV. Contingencies	0.00	2	2	2.50
Total	48.00	32.00	80.00	100
Percentage	60	40	100	

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

C. Key results indicators

- 1.16 Based on the indicators proposed in the country strategy (document GN-2662-1) and the objectives pursued by the program, the results are expected to be measured in terms of the increase in formal employment, as a side effect of increased tourism spending. The [Results Matrix](#) (Annex II) agreed upon with the executing agency shows a breakdown of outcome and output indicators.

II. FINANCING STRUCTURE AND RISKS

A. Financing instrument

- 2.1 The program is an investment loan under the Flexible Financing Facility (document FN-655-1) and the multiple works modality within the scope of components 1, 4 and 5, which call for works for the tourism development and environmental management of beneficiary destinations. The maximum time period for the start of works will be four years. The disbursement period will be five years, under the advance of funds modality (see Annex III).

Table 3. Disbursement Schedule

Source	Year 1	Year 2	Year 3	Year 4	Year 5
IDB/CP	12%	23%	27%	22%	16%

B. Technical and economic viability

- 2.2 The Tourism Department of the State of Espírito Santo (SETUR) has conducted the technical studies necessary for preparation of the operation: (i) the [Integrated Sustainable Tourism Development Plan \(PDITS\)](#) for the hub of the Metropolitan Region of Vitória, which was submitted to the State Tourism Council (CONTURES)⁴¹ for validation before approval; (ii) the [project data sheets](#) for all investments under the program; and (iii) a representative sample of such investments, accounting for 32% of total program cost, constituted by the [terms of reference](#) for the studies⁴² to be conducted during the first 18 months of execution (US\$14 million), in addition to [feasibility studies and designs for the sanitation project in Vila Velha](#) (US\$12 million, corresponding to 24.5% of the total cost of program works), following the eligibility criteria and technical guidelines of the PRODETUR Operating Regulations⁴³ (see paragraphs 1.5 and 3.4). With respect to the program's [economic viability](#), in order to estimate the full spectrum of expected direct, indirect, and induced socioeconomic benefits, a computable general equilibrium model was developed, calibrated for the economy of the Metropolitan Region of Vitória, and a series of simulations were run to determine to what extent a potential increase in tourism spending could alter the selected socioeconomic indicators (gross regional product, formal employment, family income, poverty, and inequality). The analysis shows that an increase in tourism spending has a positive impact on family income (1.75%) and on the generation of formal employment (1,828 in typical tourism activities (TTA)). The impact simulation also shows that it would be possible for 1,996 individuals to escape poverty (2.3% reduction in the number of poor people). This same scenario yields a net present value of R\$240.3 million and an internal rate of return (IRR) of 33%. A sensitivity analysis was performed, varying the levels of tourism flows, expenditure and length of stay, and using a discount rate of 12%. For the project to be economically viable, the minimum increase required in average per capita spending by tourists staying in hotels is 1.5% in 2019, and 5% in 2026, representing growth below the trend recorded in the Metropolitan Region of Vitória since 2007.⁴⁴ This increase yields an IRR of 12%.

⁴¹ This body brings together representatives of the public and private sectors involved in tourism activity.

⁴² Integrated program management system, demand study, marketing plan, procurement management plans, office IT equipment, and management for institution-strengthening, urban and landscape improvement works, works supervision, tourism signage.

⁴³ The representative sample of program works was selected according to the following criteria: (i) capacity of the executing agency to prepare projects of high technical complexity; (ii) its capacity to ensure institutional coordination within the state; (iii) social and environmental scope of the works.

⁴⁴ According to SETUR data, daily per capita tourism expenditure has risen by 147% since 2007 in the Metropolitan Region of Vitória.

C. Environmental and social safeguard risks

- 2.3 The project is classified as category “B” under the Bank’s Environment and Safeguards Compliance Policy (Operational Policy OP-703). During project preparation, the team reviewed the strategic socioenvironmental analysis for the project and defined the specific mitigation, management, and monitoring measures to be applied during execution. Component 5, on socioenvironmental management (US\$9.1 million), provides funding for works supervision and oversight, strengthening of environmental monitoring, and efforts to encourage local participation. The planning, design, and implementation of the investments will follow the guidelines established in the [Environmental and Social Management and Planning Manual \(MPGAS\)](#), which is part of the program Operations Manual, consolidating the instructions and requirements of applicable Bank policies as well as the specific requirements for works included in the annexes. The environmental and social management report ([ESMR](#)) presents the findings of the socioenvironmental evaluation with recommendations for execution.

D. Fiduciary and other risks

- 2.4 An [institutional capacity assessment](#) was performed for SETUR, as executing agency, using the Institutional Capacity Assessment System (ICAS). The level of risk is medium. The main mitigation measures are: (i) introduction of an integrated project management system including a financial and accounting management module to comply with the Bank’s accountability requirements; (ii) capacity building for the executing agency in the Bank’s fiduciary management policies, as well as in planning, execution, and supervision processes; (iii) creation of a Special Bidding Commission (CEL); (iv) strengthening of the program coordination unit (PCU) with staff assigned based on agreed job descriptions and equipped to perform their duties. **Publication of the act of law creating the Special Bidding Commission (CEL) will be a special contractual condition precedent to the first disbursement.** A special execution condition will be implementation of the Integrated Project Management System, on the terms agreed upon with the Bank, prior to the first competitive bidding process for program investments/works. Risks were also identified using the Bank’s Procedures Guide for Risk Management in Projects with Sovereign Guarantee. The risks identified arise from external sources, such as a slowing of the Brazilian economy and a potential contraction in tourism demand, as well as internal sources (operational aspects such as interagency coordination). The [Risk Matrix](#) includes mitigation measures, indicators, the parties responsible, and implementation.
- 2.5 **Audits.** External control will be exercised by the State Audit Court or by an independent audit firm previously selected and contracted in accordance with the Bank’s specific policy and procedures. The borrower will deliver duly audited financial statements to the Bank, on an annual basis, within 120 days after the close of the fiscal year.

- 2.6 **Procurement.** Program goods, works and services will be procured in accordance with the Bank's policies established in documents GN-2349-9 and GN-2350-9, approved in March 2011, as indicated in Annex III. The relevant processes indicated in the [procurement plan](#), financed in whole or in part by the Bank and regardless of value, as well as all processes where the estimated cost exceeds the threshold for international competitive bidding and all direct contracting processes, will be subject to ex ante review until such time as the Bank authorizes the ex post procedure.
- 2.7 **The state's financial position and recognition of counterpart expenditures.** The [financial analysis](#) shows that the state of Espírito Santo has pursued a sound fiscal policy over the last five years, and there is sufficient leeway for this project. The Bank may recognize, against the local counterpart, up to US\$6.4 million in eligible expenditures incurred for basic sanitation in Vila Velha, provided that requirements substantially similar to those of the loan contract and of the [Environmental and Social Management and Planning Manual \(MPGAS\)](#) have been met. Such expenditures must have been incurred on or after the project profile approval date (12 December 2013), but in no case more than 18 months prior to loan approval by the Board of Executive Directors.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Program execution and administration

- 3.1 The borrower will be the state of Espírito Santo, and the executing agency will be the borrower, acting through the Tourism Department of the State of Espírito Santo (SETUR). Following the recommendations from the Institutional Capacity Assessment System (ICAS) (see paragraph 2.4), the state will have to restructure the operational duties and responsibilities of SETUR, including expansion of its current authority to contract for works, and creation of a program coordination unit (PCU) reporting to the state's Secretary of Tourism. The PCU will have full responsibility for general administration, supervision, and evaluation of the program, i.e., it will: (i) ensure that the contractual conditions are met; (ii) deliver work plans for execution and competitive bidding processes; (iii) prepare the required reports; (iv) submit disbursement requests; (v) prepare and deliver audited financial statements to the Bank; and (vi) maintain the financial/accounting system in accordance with Bank policies. The PCU will have: (i) a general coordinator; and (ii) six management units (administrative/financial; procurement, contracts and agreements; tourism development and institution-strengthening; environment; planning, monitoring and evaluation; and tourism works). **As a special contractual condition precedent to the first disbursement, evidence will be provided of: (i) publication of the state decree granting SETUR the legal authority to contract for works; and (ii) creation of the PCU, the structure of responsibilities, and the appointment of its general coordinator and other specialists in accordance with the agreed job descriptions.** Other sector administrations will provide technical support for:

- (i) preparation of studies, projects and competitive bidding processes; (ii) technical/environmental supervision of works; and (iii) operation and maintenance. A special execution condition will be the entry into force of cooperation agreements between the borrower/SETUR and the relevant sector administrations, prior to the first competitive bidding process for investments/works. The responsibilities of the beneficiary municípios include: (i) having legal possession of the land for the works; (ii) assisting in obtaining authorizations; and (iii) operating and maintaining the assets. A special execution condition will be entry into force of the cooperation agreements between the borrower/SETUR and each município, prior to the first competitive bidding process for investments/works under its jurisdiction.
- 3.2 During program execution, civil society and the private sector will participate through the State Tourism Council (CONTURES). To minimize any delays and ensure coordination, an Interagency Monitoring Commission (CIS) will be established for the program, chaired by the state Secretary of Tourism. The CIS will issue recommendations to ensure the sustainability of activities. A special execution condition will be evidence establishment of the CIS, within six months after signature of the loan contract. An [external firm](#) will support the PCU for technical, administrative, financial, and competitive bidding procedures, as well as program supervision. **A special contractual condition precedent to the first disbursement will be evidence that the short list phase for selecting the management firm to support the PCU has been completed.** A special execution condition will be presentation of evidence that the management firm has been contracted to support the PCU, prior to competitive bidding for investments/works. Additionally, the executing agency will contract for works supervision services.
- 3.3 **Program Operations Manual.** Program implementation will be governed by a program [Operations Manual](#) specifying the execution and coordination structure and the procedures and responsibilities in the project cycle: (i) eligibility and formulation of individual projects in light of differentiated investment typologies, including cost recovery studies; (ii) technical and socioenvironmental review; and (iii) requirements for works supervision. It also establishes rules for programming, financial/accounting management, procurement, audits, and monitoring and evaluation. **A special contractual condition precedent to the first disbursement will be evidence of entry into force of the final version of the program Operations Manual, including the Environmental and Social Management and Planning Manual (MPGAS), as well as operational guidelines governing grants-in-aid for local entrepreneurs.**
- B. Monitoring and evaluation arrangements**
- 3.4 The [monitoring and evaluation plan](#) agreed upon with the executing agency includes: (i) impact indicators, baseline, and means of establishing it; (ii) timetable and the parties responsible for monitoring; and (iii) methodology, activities, and budget. SETUR will deliver a status report annually within 60 days

after the end of each six-month period, focusing on the achievement of indicators and outcomes, problems, and corrective measures. The reports for the second half of the year will contain the annual work plan (AWP) for the following year and an updated procurement plan. SETUR will deliver a preliminary evaluation within 18 months after the effective date of the loan contract; a midterm evaluation within 90 days after the date on which 50% of the loan proceeds have been committed; and a final evaluation within 90 days after the date on which 90% of the proceeds have been disbursed. These reports will include: (i) financial execution by component and source of financing; (ii) outputs, outcomes, and impacts; (iii) application of the program Operations Manual; (iv) fulfillment of contractual clauses; and (v) outcomes of socioenvironmental audits and audits of the financial statements, procurements, and disbursements.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives		Aligned	
Lending Program	Lending to support climate change initiatives, renewable energy and environmental sustainability.		
Regional Development Goals	i) Share of formal employment in total employment, and ii) Proportion of terrestrial and marine areas protected to total territorial area (%).		
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) Number of jobs added to formal sector, ii) Households with new or upgraded sanitary connections, iii) Micro/small/medium productive enterprises financed, iv) Municipal or other sub-national governments supported, and v) Number of projects with components contributing to improved management of terrestrial and marine protected areas.		
2. Country Strategy Development Objectives		Aligned	
Country Strategy Results Matrix	GN-2662-1	Help improve the competitiveness of Brazilian tourism, promoting the generation of social and territorial equity.	
Country Program Results Matrix	GN-2756	The intervention is not included in the 2014 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability		Highly Evaluable	Weight
		9.7	10
3. Evidence-based Assessment & Solution		9.4	33.33%
3.1 Program Diagnosis		2.4	
3.2 Proposed Interventions or Solutions		4.0	
3.3 Results Matrix Quality		3.0	
4. Ex ante Economic Analysis		10.0	33.33%
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0	
4.2 Identified and Quantified Benefits		1.5	
4.3 Identified and Quantified Costs		1.5	
4.4 Reasonable Assumptions		1.5	
4.5 Sensitivity Analysis		1.5	
5. Monitoring and Evaluation		9.6	33.33%
5.1 Monitoring Mechanisms		2.5	
5.2 Evaluation Plan		7.1	
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood		Medium	
Identified risks have been rated for magnitude and likelihood		Yes	
Mitigation measures have been identified for major risks		Yes	
Mitigation measures have indicators for tracking their implementation		Yes	
Environmental & social risk classification		B	
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/PDP Criteria)	Yes	Financial Management: Budget, Treasury and External Control. Procurement: Use of National Sub-system for Public Bidding.	
Non-Fiduciary			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor	Yes	Project promotes new formal occupations in tourism activities.	
Environment	Yes	The project includes a socio-environmental management component that will strengthen the capacity for the administration of environmental and protected areas in municipalities linked to the program.	
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		Yes	The ex-post evaluation will expand the knowledge of the structure of the tourism sector in the areas benefitting from the program and its links to the state economy. The ex-post evaluation will provide empirical evidence on explicit multipliers of tourism related to tourism segments with different consumption patterns and their impact on households of local communities who benefit from the program.

The project document provides a comprehensive diagnosis of the opportunities and challenges associated with developing tourism in the state of Espírito Santo. While the project is part of a broader strategy for promoting tourism within Brazil that the Bank is supporting, the analysis includes an empirical diagnosis of the particular issues facing the State and it provides an empirical assessment of the problems and potential solutions, offering a clear justification for the project. Proposed interventions respond to the needs identified, and the document presents empirical evidence on the potential of tourism to generate income and reduce poverty in Brazil.

The Results Matrix reflects the objectives and sets of activities in the project and has a clear vertical logic. Key higher-level indicators have values that are a product of the ex-ante economic analysis. Lower level indicators reflect the project design. SMART indicators at the level of impact, results and products, with their respective baseline and target values are provided and the means of collecting the information are noted.

The economic analysis is consistent with the logic of the program. Based on simulations, it estimates the full spectrum of expected socio-economic state-wide impacts (direct, indirect and induced). A computable general equilibrium (CGE) model is used, calibrated to the local economy. The analysis includes simulations to quantify possible impacts on poverty, equity and formal job creation and it is used to calibrate the expected goal of the program's results matrix. The assumptions are clearly presented and appear reasonable.

The project documentation includes a monitoring and evaluation plan that is complete and follows the respective guidelines. The Evaluation Plan proposes the use of "synthetic controls" to capture changes in tourism variables that can be attributed to the program. In addition, following the guidelines on evaluating tourism projects developed in conjunction with SPD, data will be collected on households, firms and tourists and a simulation model will be constructed and used for quantifying the impacts of the program at the level of the variables of interest - income, employment, poverty.

The identified risks seem reasonable and include mitigation measures and their related metrics.

RESULTS MATRIX

(See [full Results Matrix](#))

General objective	Help generate formal employment through tourism activity.
Purpose	Increase tourism spending through the structuring and marketing of new tourism offerings (focus on culinary tourism), institution-strengthening, improved infrastructure and basic services, and socioenvironmental management of tourism destinations.

Outcome indicators	Baseline	Target
<p>Program objective</p> <p>Increase in formal employment in typical tourism activities (TTAs)</p> <p>Indicator</p> <p>Number of people in formal direct employment in TTAs</p>	<p>Year 2012: 40,178 formal employees</p> <p><u>Source:</u> RAIS data</p>	<p>Year 2019: 345 additional people in formal direct employment in TTAs as a direct result of the program</p> <p>This target is the side effect of increased tourism spending as a result of the program.</p> <p><u>Source:</u> Ex ante economic evaluation of the program (minimum scenario for program viability).</p> <p><u>Means of verification:</u> Ex post evaluation of the program.</p>
<p>Program purpose</p> <p>Increased tourism spending</p> <p>Indicator</p> <p>Daily average per capita spending by tourists</p>	<p>Year 2012</p> <p>Tourists in hotels: R\$154</p> <p>Tourists staying with friends/relatives: R\$41</p> <p><u>Source:</u> SETUR</p>	<p>Year 2019</p> <p>Tourists in hotels: R\$215</p> <p>Tourists staying with friends/relatives: R\$56</p> <p>Minimum increase in tourist spending necessary for program viability based on ex ante evaluation of the program. Assumes 4.5% annual inflation.</p> <p><u>Means of verification:</u> SETUR current demand surveys, ex post evaluation of the program.</p>

Component 1. Tourism offerings strategy	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
Outcome Diversification of tourism offerings, with a focus on culinary tourism, to attract new demand segments Indicator Increase in the number of tourists arriving in low season	1,284,045 visitors in low season <u>Source:</u> SETUR (2012)	–	–	–	–	17,100 additional visitors in low season	1,301,145 visitors in low season (minimum flow for program viability)	Frequency of measurement First, fourth, and last year Source and means of verification SETUR demand reports/PCU status reports Responsibility PCU
Component 2. Tourism promotion	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
Outcome More effective tourism promotion by the state Indicator Increase in percentage of potential domestic visitors who say they are interested in exploring the state	54% of the potential domestic market states interest <u>Source:</u> SETUR, potential domestic demand survey (2012)					64%	At least 64% of potential domestic visitors say they are interested in exploring the state.	Frequency of measurement Year 5 Means of verification Potential domestic demand survey conducted by SETUR. PCU status reports. Responsibility PCU

Component 3. Institution- strengthening	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
Outcome Better comparability of tourism statistics at state and federal levels Indicator Number of tourism statistics operations with methodological basis consistent with UNWTO international recommendations	0	-	-	1 tourism statistics operation	1 tourism statistics operation		At least 2 tourism statistics operations with methodological basis consistent with UNWTO international recommendations	Frequency of measurement Years 3 and 4 Means of verification PCU status reports and SETUR activity report Responsibility PCU
Component 4. Basic services	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
Outcome Expansion of basic sanitation for the Município of Vila Velha Indicator Number of residents covered by the sanitation system	217,224 residents with coverage <u>Source:</u> Year 2010 CESAN	—	—	43,705 additional beneficiaries with coverage	—	47,900 additional beneficiaries with coverage	47,900 additional beneficiaries with coverage <u>Source:</u> CESAN	Frequency of measurement Years 3 and 5 Means of verification PCU status reports Responsibility PCU

Component 5. Socioenvironmental management	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
<p>Outcome Improved environmental management in program beneficiary tourism municípios</p> <p>Indicator Number of municípios that have incorporated environmental indicators on tourism impact into their master plans</p>	0	0	1 município has incorporated environmental indicators on tourism into its master plan	1 município has incorporated environmental indicators on tourism into its master plan	2 municípios have incorporated environmental indicators on tourism into their master plans	3 municípios have incorporated environmental indicators on tourism into their master plans	7 municípios have incorporated environmental indicators on tourism impact into their master plans	<p>Frequency of measurement Annual</p> <p>Means of verification PCU status reports</p> <p>Responsibility PCU</p>

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Brazil
Project number: BR-L1219
Name: Espírito Santo Tourism Development Program
(PRODETUR-ES)
Prepared by: Leise Estevanato (Financial Consultant, CSC/CBR)
Carlos Lago (Procurement Specialist, FMP/CBR)

I. EXECUTIVE SUMMARY

- 1.1 Fiduciary management was assessed through meetings between the Bank's project team and the executing agency, as well as with various government authorities. Also considered were the preparation documents for the operation and the Bank's experience of working on other, similar tourism projects at the state government level.
- 1.2 Based on the assessment of the executing agency, the fiduciary agreements applicable for program execution have been prepared for both procurement and financial management. The agreements also take into account the fiduciary context of the country and the executing agency, the salient points of which are summarized in the following paragraphs.

II. FIDUCIARY CONTEXT OF THE COUNTRY

- 2.1 Brazil has strong country fiduciary systems that enable and facilitate good management of administrative, financial, control, and procurement processes, in accordance with the principles of transparency, economy, and efficiency. The Bank continues to work with the Brazilian government to strengthen the country's fiduciary systems, with a view to their sustainable use.

III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 3.1 The Tourism Department of the State of Espírito Santo (SETUR) will serve as executing agency, acting through a program coordination unit (PCU) to be created, which will receive support from a firm to be selected and financed by the loan. The PCU will be responsible for coordinating, planning, monitoring, and executing the activities related to the projects and actions financed with program resources.
- 3.2 It will also be responsible for fiduciary administration of the operation's execution, including budgeting, conducting and monitoring procurement and

- contracting processes, monitoring contract execution, and processing the authorization and recognition of expenditures and respective payments.
- 3.3 In addition, a Special Bidding Commission (CEL) will be established under the PCU for a period of five years, running from its establishment date.

IV. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 4.1 The risk and institutional capacity assessment of SETUR identified the following risks in the fiduciary area that may lead to execution delays: delay in the processing of accounting and financial information and in generating reports, due to limited knowledge of Bank policies and procedures (financial, accounting, procurement, status reports, etc.). The following mitigation measures are proposed:
- a. Immediate steps to adapt the Espírito Santo Integrated Public Financial Management System (SIGEF/ES) to Bank requirements, so that it can generate disbursement requests and project financial reports, as well as perform other controls required by the Bank;
 - b. Creation of a Special Bidding Committee (CEL) by government decree to conduct procurement processes with the loan proceeds, to be executed in accordance with Bank policies;
 - c. Selection and contracting of a firm to assist PCU staff in works management and supervision;
 - d. Training for PCU and CEL members, personnel of the works management and supervision firm, and SETUR staff involved in execution.

V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

- 5.1 **Conditions precedent to the first disbursement:** (i) Publication of the act of law creating the CEL; (ii) evidence of restructuring of SETUR indicating its legal authority to contract for the program works; (iii) evidence of creation of the PCU, the structure of responsibilities, and the appointment of its general coordinator and other specialists in accordance with the agreed job descriptions; (iv) evidence of entry into force of the final version of the program Operations Manual, including the Environmental and Social Management and Planning Manual (MPGAS), as well as operational guidelines governing grants-in-aid for local entrepreneurs; and (v) evidence that the short list phase for selecting the management firm to support the PCU has been completed.

VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

1. Procurement execution

- 6.1 The Fiduciary Agreements and Requirements for procurement execution establish the provisions applicable to all program procurement and contracting:
- 6.2 **Procurement of works, goods, and nonconsulting services.** Procurements of works, goods, and services to be financed, in whole or part, with the IDB loan proceeds will be conducted in accordance with the “Policies for the procurement of goods and works financed by the Inter-American Development Bank” (document GN-2349-9 of March 2011).
- 6.3 International competitive bidding (ICB) will be used for the procurement of works, goods, and services with an estimated cost of US\$25 million or more for works, and US\$5 million or more for goods and services, following the procedures established in Section II of document GN-2349-9. National competitive bidding (NCB) may be used when the estimated cost is less than US\$25 million for works, and US\$5 million for goods and services, and the shopping method may be used for works costing less than US\$500,000, and goods and services costing less than US\$100,000, following the procedures established in Section III of the same document.
- 6.4 Application of the provisions of Law 10520/2002 will be subject to the following thresholds: (i) electronic auction, using the systems approved by the Bank for procurements of off-the-shelf goods and services with an estimated cost of US\$5 million or less; and (ii) price list for procurements of off-the-shelf goods with an estimated cost of US\$5 million or less, provided that the original price list has been previously accepted by the Bank. The Bank may eliminate the use of one or more of the modalities described in this paragraph at any time during the program execution period.
- 6.5 **Selection and contracting of consulting services.** The selection and contracting of consulting services to be financed, in whole or part, with the IDB loan proceeds will be conducted in accordance with the “Policies for the selection and contracting of consultants financed by the Inter-American Development Bank” (document GN-2350-9 of March 2011).
- 6.6 The short list for processes with an estimated cost of US\$1 million or less, per contract, may comprise entirely national consulting firms. When the estimated cost of the contract is equal to or greater than this amount, the short list will comprise six firms, with no more than two firms of the same nationality.
- 6.7 The selection and contracting of individual consultants to be financed, in whole or part, with the IDB loan proceeds will be conducted in accordance with Section 5 of document GN-2350-9, “Selection and Contracting of Individual Consultants.”
- 6.8 **Recognition of expenditures against the counterpart.** Pursuant to the Bank’s policy on the Recognition of Expenditures, Retroactive Financing, and Advance

Procurement (document GN-2259-1, Operational Policy OP-507), the Bank may recognize, against the local counterpart, up to US\$6.4 million in eligible expenditures incurred for basic sanitation in Vila Velha, provided that requirements substantially similar to those of the loan contract and of the [environmental and social management and planning manual](#) in its annex on basic sanitation have been met. Such expenditures must have been incurred on or after the project profile approval date (12 December 2013), but in no case more than 18 months prior to loan approval by the Board of Executive Directors.

6.9 **Domestic preference.** No margins of domestic preference will apply.

2. Threshold amounts for Brazil (in US\$)

6.10 The threshold for use of ICB will be made available to the borrower or to the executing agency, as appropriate, at www.iadb.org/procurement. Below that threshold, the selection method will be determined according to the complexity and features of the procurement or contracting process, which must be reflected in the procurement plan approved by the Bank. The threshold for including international consultants on the short list will also be found at the same website. Below that threshold, the short list may comprise entirely national consultants.

3. Main procurement processes

Activity	Type of bidding	Estimated amount (US\$)
Works		
Basic sanitation works	NCB	12,000,000
Consulting (firms)		
Program management support	QCBS	2,000,000
Works supervision support	QCBS	600,000
Preparation of final and supplemental designs	QCBS	1,500,000
Itemized procurement plan for the first 18 months (click here).		

4. Procurement supervision

6.11 In agreement with the project team, it was determined that complex procurement processes, as identified in the approved procurement plan, all processes with an estimated cost above the ICB thresholds, and direct contracting processes will be subject to ex ante review.

5. Special provisions

6.12 Procurement plan. SETUR will submit updates to the procurement plan for the following 18 months on an annual basis or as needed, for review and approval by the Bank.

6. Records and files

6.13 The program records and files will meet at least the following conditions:

- a. Records/processes will contain original documentation, filed in chronological order.
- b. Records/files will be stored in an appropriate place set aside for that purpose, with restricted access and preventive security such as a ban on smoking, access limited to authorized personnel, etc.;
- c. A record will be kept of all the documentation on file.

VII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 7.1 SETUR will be responsible for strategic and technical coordination of the program and will set program priorities and guidelines.
 - 7.2 Acting through a program coordination unit (PCU), SETUR will also be responsible for operational communication with the IDB and for the execution and general coordination of the program, including: (i) planning of activity execution according to the program execution plan, budgets, and annual work plan (AWP); (ii) preparation and update of the initial project report, AWP, procurement plan, six-monthly status reports, evaluation reports, and project completion report; (iii) management, monitoring, and supervision of AWP execution and the indicators established in the operation's results matrixes; (iv) budgetary and financial programming for the program and execution of the corresponding monitoring activities; (v) implementation and maintenance of a control system to ensure proper use of the loan proceeds, as well as the storage and safekeeping of project documents; (vi) execution and supervision of technical aspects of the program; (vii) execution of the activities necessary to conduct program procurements; (viii) preparation of technical files for the execution of each component; (ix) formulation of technical specifications and terms of reference for procurement processes; (x) preparation and regular delivery of program status reports, from the quantitative and qualitative standpoints; (xi) liaison and coordination with other agencies involved in the program; and (xii) fiduciary administration of operation execution and responsibility for program contracting and financial administration, including funding and payments, preparation of financial reports, accountability, preparation of disbursement requests, and provision of information for audits.
 - 7.3 The program budget will be duly registered and implemented through the financial management system used by the state.
 - 7.4 The budget for program activities will be approved through an appropriate legal instrument. The Bank will reimburse eligible project expenditures, in accordance with the agreements established and executed.
- 1. Accounting and information system**
- 7.5 The program's budgetary and financial execution will be performed directly using the system, which will be duly adapted for such purpose.

- 7.6 In relation to the financial module, in addition to the Bank's standardized reports, the "Financial Plan" report will be prepared, to support requests for advances of project resources.

2. Disbursements and cash flow

- 7.7 The Program will operate with funds advanced by the Bank, to meet the project's actual liquidity needs. This will require submission of a disbursement request, accompanied by a financial plan reflecting the fund requirements for the period concerned, as previously agreed upon with the Bank. The PCU will submit an initial financial plan for the project to the Bank, which must include the disbursement schedule for the whole execution period. That initial plan will give rise to the first plan, covering the first four months of execution, on the basis of which the first advance of funds will be arranged. For future advances, at least 80% of the funds advanced must be accounted for, and a new financial plan submitted for the period in question. For the purposes of accounting for the loan proceeds and local contribution resources, amounts paid in local currency will be converted into the currency of the operation in accordance with following exchange rules: (i) the rate in force on the payment date; or (ii) in the case of advances of funds, the effective exchange rate on the date on which the currency of the operation is converted into local currency; and, for reimbursement requests and the local counterpart, the exchange rate in force on the day before the date on which the disbursement request is submitted.
- 7.8 Supporting documentation for expenditures will be subject to ex post review.

3. External control and reports

- 7.9 External control will be exercised by the State Audit Court or by an independent audit firm previously selected and contracted in accordance with the Bank's specific policy and procedures. The borrower will deliver duly audited financial statements to the Bank, on an annual basis, within 120 days after the close of the fiscal year.

4. Financial supervision plan

Supervision activity	Supervision plan			
	Nature and scope	Frequency	Responsibility	
			Bank	Third party
Operational	Review of physical progress of the component actions and activities as compared with disbursements	Six-monthly	Technical team	
	Review of status report	Six-monthly	Fiduciary and technical teams	Executing agency
	Review of portfolio	Annual	Technical team	
Fiduciary	Ex ante and ex post review of disbursements and procurements	Annual	Fiduciary team	Fiduciary team and external auditors
	Financial and operational audit	Annual		External audit firm
	Review of disbursement requests and accompanying reports	Periodic	Fiduciary and technical teams	
	Inspection visit and analysis of internal controls and control environment	Annual	Fiduciary team	
Compliance	Annual budget allocation for project execution	Annual	Fiduciary team	Executing agency
	Delivery of audited financial statements and operational audit	Annual	Fiduciary and technical teams	Executing agency
	Conditions precedent to the first disbursement	Once	Fiduciary and technical teams	Executing agency

- 7.10 The supervision plan as established is oriented toward a medium-risk operation. This plan may be altered during program execution in response to observed risk circumstances or to accommodate additional control needs determined by the Bank.

5. Execution mechanism

- 7.11 The execution mechanism described in the proposal for operation development (POD) will require an administrative/financial execution structure centralized through the PCU, which will be responsible for annual budget formulation and financial execution for both the local contribution and the Bank contribution.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/14

Brazil. Loan ___/OC-BR to the State of Espírito Santo
Espírito Santo Tourism Regional Development
Program (PRODETUR ES)

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 Espírito Santo, as Borrower, and with the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the Espírito Santo Tourism Regional Development Program (PRODETUR ES). Such financing will be for an amount of up to US\$48,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2014)