

PROJECT CONCEPT PAPER

BRAZIL

SEPTEMBER 20, 2004

I. BASIC DATA

Project name:	Tourism Development Program for the South of Brazil – (PRODETUR/SUL).		
Project number:	BR-0318		
Profile I:	May 7, 2002		
Project team:	Division Chief: Asunción Aguilá. Team Leader: Arthur H. Darling (RE1/EN1); Maria Claudia Perazza (RE1/EN1); Teodoro Noel (RE1/EN1), Hugo de Oliveira (RE1/EN1), Carmen Altes (RE1/EN1); Bernadete Buchsbaum (LEG/OPR); and Eduardo Figueroa, (COF/CBR).		
Borrower:	Banco do Brasil		
Executing agencies:	Banco do Brasil and the Ministry of Tourism		
Financing plan:	IDB (OC):	US\$	150 million
	Local:	US\$	<u>100 million</u>
	Total:	US\$	250 million
PTI/SEQ:	No		
Tentative dates:	Analysis Mission	October 5, 2004	
	Loan Committee	November 18, 2004	
	Board of Directors	December 13, 2004	

II. FRAME OF REFERENCE

A. The Tourism Sector

- 2.1 Through most of 1990's, the current account of Brazil's balance of payments, including the travel account, had a large and growing deficit. Since the readjustment of the exchange rate in 1999, the travel account has become positive due to the increase in the number of foreign tourists and the reduction in the number of trips abroad by Brazilian citizens. According to the latest data, in the first semester of 2004, the tourism expenditure increased 46% in relation to 2003, situating tourism as one of the main foreign exchange sources for Brazil. The Government of Brazil is making a substantial effort to increase international tourism to

generate foreign exchange and employment, and the IDB has supported these efforts in the northeast and the Amazon. Brazil has now asked for support in the South (Rio Grande do Sul, Paraná, Santa Catarina and Mato Grosso do Sul).

- 2.2 According to a survey carried out in 2001, the internal market in Brazil generates over 41 million tourists per year, which guarantees a critical mass of demand for the local tourism industry. The foreign market grew rapidly in the 1990s. In 2000, international tourism arrivals in Brazil reached a peak of 5.3 million, but these declined to 3.8 million in 2002 due to the effects of the terrorist attacks in the USA and the Argentine economic crisis. With the decline of tourism from bordering countries, the relative significance of the long haul market increased. Between 2001 and 2002, the share of arrivals from the USA grew from 14% to 20%. Europeans accounted for 36% of the arrivals in 2002 compared to 30% in 2001. In 2003, the number of international arrivals recovered, reaching 4.1 millions, and the tourism expenditure increased in proportion to US\$3.4 billion. A primary objective is to further increase the number and expenditure of the long haul tourists. This market is particularly important since it is less sensitive to exchange rate variations than the market of bordering countries. In the first semester of 2004, the number of international arrivals by air has grown by 18%.
- 2.3 In 1998, the four Southern states that are participating in the proposed Program accounted for 38% of all foreign tourists in Brazil. Eighty-seven per cent of these were from South American countries and principally from Argentina. The economic crisis of 2001 had a devastating impact on arrivals from Argentina, and the South's share of foreign tourists declined to 26% in 2002. Nevertheless, including domestic visitors, the Southern states receive more than 8 million national and international tourists per year, and tourism generates more than 250,000 jobs in direct employment -representing 17% of the total employment in the sector, and accounts for 4.5% to the GDP of the region.
- 2.4 The Southern states have a number of established tourism destinations. These include the first four areas selected for the Program: the coastline of Santa Catarina, the Serra Gaúcha (Rio Grande do Sul), Serra da Bodoquena (Mato Grosso do Sul) and Foz do Iguazu (Paraná). The main attractions are natural areas (crystalline waters, caves and landscapes in the Serra da Bodoquena, beaches in Santa Catarina, canyons in the Serra Gaúcha, and the Iguazu National Park and waterfalls) and the cultural heritage of the European immigration present in towns of Rio Grande do Sul and Santa Catarina. The second areas to be included are the Metropolitan Region of Curitiba (Paraná), the Serra Catarinense (Santa Catarina) and the Jesuit Missions (Rio Grande do Sul).
- 2.5 Two of the tourism centers in those areas are among the ten most visited in Brazil by international tourists: Foz do Iguazu (Paraná) is visited by 9% of the international tourists and Florianopolis, on the coastline of Santa Catarina, by 6.4%. The tourism industry is relatively well developed in quantitative terms in the four selected areas. For example, the number of hotel beds in Foz do Iguazu is 12,000 and in the smaller tourism center of Bonito, the main destination in the Serra da Bodoquena, the number of beds has increased ten-fold in a decade reaching 3000 in 2002. Most tourism services are provided by locally owned small and medium-size enterprises and service standards need improvement.

- 2.6 The competitiveness and sustainability of tourism in the four Southern states has been affected by problems of access and sanitation. As tourists arrive by road, the deficiencies in the roads limit access to the different tourism centers and attractions. Limitations in wastewater coverage and treatment have impact on the environment and on the quality of the tourism resources, especially where beaches and other water based assets are the main attraction. Unplanned urban growth due to poor land use planning and enforcement of regulations by municipalities also impact the environment and the quality of the tourism experience.
- 2.7 Because the traditional markets are highly seasonal, the tourism industry suffers from peaks of demand and periods of inactivity. The sector is not making efficient use of the installed capacity and employment opportunities are also influenced by the seasonal pattern. This occurs partly because the tourism sector has relied on its “natural” markets. New opportunities have not been explored and a coordinated and effective marketing action is lacking.
- 2.8 In order to improve their competitiveness, the states need to invest in infrastructure, improve the capacity of the public sector to manage the tourism development, diversify the product mix and reduce the concentration of tourism flows, improve the quality of the tourism services, and carry out an effective promotion targeting new markets especially long haul markets.

B. Strategy of Brazil for the Sector

- 2.9 The Government of Brazil includes tourism in its development strategy. The role of tourism development is to create employment, generate foreign exchange, reduce regional inequalities, and better distribute income. The Government believes that tourism is particularly effective in generating employment because the investment per job is less and the period necessary to train workers is shorter. The Government follows a strategy of decentralized tourism development. The Ministry of Tourism sets policy and coordinates actions with the National Tourism Council, other ministries, state forums, municipalities, and tourism destinations. The Ministry is relatively new but has become increasingly active and technically staffed. It has had a growing role in the PRODETUR/NE II Program and a leadership role in the coordination and development of the PRODETUR/SUL Program.
- 2.10 The Ministry’s National Tourism Plan’s goals for 2007 are to (1) generate 1.2 million new jobs; (2) increase the number of foreign tourists to 9 million; (3) increase net foreign exchange earnings to US\$ 8 billion; (4) increase the number of domestic air passengers to 65 million; and (5) develop at least three quality tourist products in every state in the Federation and the Federal District.
- 2.11 The Ministry has six strategic lines of action to achieve these objectives: (1) coordination of national and sub-national entities, (2) attraction of investments in tourism; (3) improvement of access and support infrastructure for regional destinations; (4) diversification of tourism products and targeting of specific market segments; (5) improvement of the quality of tourism services; and (6) promotion and support of marketing efforts. The National Tourism Plan cites the IDB as a source of financing for the improvement of access and support infrastructure. The Bank is supporting this strategy with credit operations in the Northeast and now in the South.

C. Strategy of the Bank in the Sector

- 2.12 The Bank's country strategy for Brazil establishes four priorities for strategic action: (1) productivity of small and medium enterprise and infrastructure with emphasis on the use of models of public-private cooperation in new investment, (2) poverty, equity, and human capital formation focused on income distribution, (3) living conditions and efficiency in cities with improvements in environmental quality, (4) modernization of the state with emphasis on institutional strengthening of sub-national governments. The Country Paper's tourism strategy is to focus on projects that increase international demand with particular emphasis on (1) eco-tourism, adventure tourism, and cultural tourism, (2) local management of tourism, (3) training existing entrepreneurs, workers and new entrants in the tourism sector and (4) the preservation of natural and cultural heritage. The Program in the South emphasizes marketing to attract international tourists, strengthens eco- adventure and cultural tourism products, provides assistance to municipalities to improve local management, provides training for both entrepreneurs and workers, finances preservation of natural and cultural heritage, which are the primary attractions.
- 2.13 The proposed Program will also contribute to the other components of the Bank's country strategy. It will support efforts to increase the productivity of small and medium enterprises in tourism primarily by reducing seasonality and through training. It will finance infrastructure and promote private concessions recognizing private investment as counterpart. It will reduce social inequities and poverty by generating employment and increasing incomes. It will improve urban living conditions and environmental quality by financing sanitation, parks, and open space, and it will increase the capacity of municipal governments to regulate land uses and manage public services that benefit both the tourist and host populations.

D. Lessons Learned

- 2.14 The Bank has learned a number of lessons from its participation in tourism programs, particularly those in Brazil. First, careful planning and sequencing of individual investments is needed. Without such planning and sequencing, some projects may attract large numbers of tourists before infrastructure is in place to manage their negative social and environmental impacts and before measures are in place to manage the social impacts associated with immigration. This lesson can be applied by ensuring that tourism investments are based on a tourism development plan.
- 2.15 Second, tourism programs require full involvement of stakeholders. Joint participation by state, municipal, and private interests, and civil society in planning makes it more likely that tourism will benefit the permanent population and improve the environmental sustainability of investments. Participation can be achieved by establishing tourism councils to discuss problems, solutions and plans to implement them.
- 2.16 Third, tourism programs must balance investment in infrastructure with institutional strengthening of municipalities to manage tourism flows and capture benefits. If this is not done, unmanaged flows of tourists and migrant workers seeking employment can damage areas both environmentally and aesthetically reducing their attraction. Balance can be achieved by

including actions to strengthen municipal planning capacity and resources to manage tourism flows and operate and maintain municipal investments.

- 2.17 Fourth, tourism development programs need an execution scheme that responds to the cross-sectoral nature of tourism development. The programs comprise a series of works that have to be technically sound and coordinated in implementation. Projects need to be planned, evaluated and executed by experts in tourism planning, socio-environmental and institutional analysis, economics and finance. This lesson can be applied by ensuring an execution team that is multi-disciplinary working in close coordination with the state and municipal agencies responsible for specific works and actions.

E. Conceptualization

- 2.18 The PRODETUR/SUL is a Program to help generate foreign exchange, employment and income by investing in tourism. It is a credit operation that will make loans available to the States of: Mato Grosso do Sul, Paraná, Rio Grande do Sul and Santa Catarina to undertake tourism projects for specific geographic areas within each state.
- 2.19 The Bank's experience in Brazil and other countries provides lessons on the best way to achieve this objective without causing negative environmental and social impacts. To apply these lessons the Bank and the states have agreed on a series of steps. First, for each selected area, the states will hold a series of workshops with the private sector, civil society and municipal governments to talk about the problems, opportunities and alternative strategies in the tourism sector. The workshops elicit commitment on the part of participants and make sure that issues and conflicts are identified early so that solutions benefit the local population and are sustainable. Based on the diagnosis and objectives, each state prepares, for each selected area, a Tourism Development Plan that balances investments in infrastructure with institutional strengthening necessary to monitor and manage social and environmental impacts and that establishes the sequence and priority of investments and institutional strengthening to ensure that foreseen impacts are properly managed. Each state validates its Tourism Development Plans with Regional Tourism Councils that are comprised of the key stakeholders elected during the earlier workshops to follow tourism development in the areas. To ensure that the Program is implemented effectively, the states are establishing State Coordinating Units with a multi-disciplinary staff to orient and analyze specific project proposals and to help state and municipal agencies that implement them.

III. THE PROGRAM

A. Objectives

- 3.1 The Goals of PRODETUR/SUL are to increase income and employment and to contribute positively to the travel account of the balance of payments. The Purpose of the Program is to increase tourists' expenditure in the South. The Logical Framework in Annex I shows the baseline indicators for employment and wages in tourism, and number of visitors, average stay and average daily expenditure for each priority area in the Program.

B. Description

- 3.2 The Program is structured as a credit program administered by the Banco do Brasil. The Banco do Brasil will be the borrower and intermediary to channel resources to four states to undertake tourism projects that are identified in Tourism Development Plans for specific geographic areas. The States of Mato Grosso do Sul, Paraná, Rio Grande do Sul and Santa Catarina will be the sub-borrowers. Program funds will be committed on a *first come-first serve basis*. The operation is governed by operating regulations and an implementation manual.
- 3.3 The Program has five eligible categories of investment (components), each of which contribute to the objectives of the Program as described below. The Program will also finance a monitoring system implemented at the state and municipal level and external auditing.

C. Dimensioning

- 3.4 The Brazilian Government has requested a loan of US\$ 200 million. However, the preliminary analysis of the financial capacity of the states to take new debt suggests that the loan should be about US\$ 150 million. Three states have the financial capacity to take on new debt at present (see ¶4.11-4.14), although the Program is structured to include the fourth as soon as it complies with the Brazilian legislation to contract new debt and improves its fiscal results.
- 3.5 In order to dimension the Program, the Bank asked Mato Grosso do Sul, Paraná, Rio Grande do Sul and Santa Catarina to select one important geographic area for tourism development, hold workshops to discuss problems and objectives, and prepare a plan and a sample of projects in the plan. The four states have prepared these plans with a total cost of US\$ 260 million, which is an adequate amount for a credit operation of the size proposed by the Brazilian Government. The Bank also asked each state to prepare, based on the draft Operating Regulations, a sample representative of the works, institutional strengthening proposals and studies that are proposed in their Tourism Development Plans. The sample ([Annex III](#)) includes 13 works of infrastructure and 34 studies that define the needs and investments in training, restoration of historic buildings, infrastructure and institutional strengthening at the state and municipal level. The Bank has reviewed the drafts of the sample of projects and studies. Some of the projects did not have complete economic analyses or environmental licenses which the Project Team will expect to see during the analysis mission. The sample ready for execution in the first year is US\$ 49 million, which represents 20% of a US\$250 million Program. The studies in the sample will generate investments to be initiated in the second year.

D. Components

- 3.6 The five categories of investment of the Program are explained below. The amount assigned to each was estimated on the basis of the percentage of costs corresponding to each component in the four Tourism Development Plans.
- 3.7 **Component 1: Strengthening state and municipal capacity to manage and benefit from tourism (US\$13 million).** This component ensures that state and local governments have the capacity to plan and control tourism development and to collect and manage taxes and fees generated. The costs cover both the preparation of studies and the subsequent implementation of the recommendations. The component includes: (i) managerial information systems and training

to strengthen capacity to plan, monitor and evaluate tourist activity; (ii) land use planning, zoning and enforcement; (iii) municipal administrative and fiscal management programs; and (iv) awareness campaigns.

- 3.8 **Component 2: Improvements in publicly owned tourist attractions and their management (US\$ 21 million).** This component finances actions that will attract more tourists and encourage them to stay longer. It includes the feasibility studies, final designs and the works recommended for: (i) development and conservation of state parks, rivers, beaches, caverns and other natural assets suitable for eco-tourism and adventure tourism; (ii) restoration, interpretation and conservation of forts, churches, museums and other cultural assets for cultural tourism; and (iii) urban landscaping, lighting, sidewalks and other improvements in urban areas that receive tourists.
- 3.9 **Component 3: Infrastructure to permit access, provide public services and manage environmental impacts (US\$ 172 million).** This component improves access, provides infrastructure services and ensures sustainability of tourism. Infrastructure absorbs the largest percentage of the Program's budget. The component includes feasibility studies, final designs, and physical works for: (i) highways and access roads; (ii) airports; (iii) water (development of source, transmission, treatment, and distribution); (iv) sewerage (collection networks, collectors, treatment plants); and (v) sanitary landfills.
- 3.10 **Component 4: Promotion of priority areas and provision of information in destination (US\$ 15 million).** This component aims to the increase of number of tourists and increase average stay. It focuses on those who spend more. It includes studies and resultant investments for: (i) marketing programs; (ii) visitor information centers; and (iii) sign posting.
- 3.11 **Component 5: Support to the private sector to provide tourism and infrastructure services (US\$ 5 million).** This component encourages improvement in the quality of tourist services through training and private investment in tourism facilities and infrastructure needed to support tourism. It includes: (i) identification of training needs, preparation of training plans and delivery of courses; (ii) feasibility studies to attract strategic private investments; and (iii) feasibility and other studies to support private sector involvement in concessions for infrastructure and other tourism related facilities.

E. Cost and Financing

- 3.12 The following table presents the distribution of costs by source of financing and category of investment. The Bank will finance 60% of the cost, the states 24% and Federal Government 16%. The loan will have: (i) a disbursement period of 5 years; (ii) a grace period of 5 years; and (iii) an amortization period of 25 years.

Projects Costs
(*millions of US\$*)

Category	BID	Local	Total	%
1. Administration, Supervision and Regional Studies		7.0	7.0	2.8%
2. Direct Costs	149.7	76.0	225.7	90.2%
2.1 Strengthening state and municipal capacity	8.0	5.0	13.0	5.2%
2.2 Improvements in attractions and management	14.0	7.0	21.0	8.4%
2.3 Infrastructure	114.7	57.0	171.7	68.6%
2.4 Promotion and information in destination	10.0	5.0	15.0	6.0%
2.5 Support to the private sector	3.0	2.0	5.0	2.0%
3. Concurrent Costs	0.3	0.6	0.9	0.4%
3.1 Monitoring System		0.5	0.5	0.2%
3.2 External Audit	0.3	0.1	0.4	0.2%
4. Financial Costs		16.4	16.4	6.6%
4.1 Interests		15.4	15.4	6.2%
4.2 Credit Commission		1.0	1.0	0.4%
4.3 FIV				
Total	150.0	100.0	250.0	100.0%
	60.0%	40.0%	100.0%	

IV. EXECUTION OF THE PROGRAM

A. THE BORROWER, GUARANTOR AND EXECUTING AGENCY

- 4.1 The Banco do Brasil will be the borrower and the executing agency of the Program. The Federative Republic of Brazil will be the Guarantor of the Loan. The Banco do Brasil is a sound financial institution with total assets of R\$230.1 billion (approximately US\$79.7 billion) as of December 2003. In 2003, it had net income of R\$2.4 billion. Its total loan portfolio represents 67% of deposits, with arrears of only 5%. The Banco do Brasil has been maintaining a strong deposit base to total assets of approximately 49%. It is in compliance with all regulations of the Central Bank of Brazil and with the Basel recommendations on technical ratios, loan portfolios and capitalization. Its coefficient of capital adequacy was 13.7% on December 2003.

B. Execution and Administration of the Program

- 4.2 The Banco do Brasil will make sub-loans in local currency to the states, passing on the IDB loan's financial conditions, the exchange risk, plus a margin of 1% to cover administrative, supervision and monitoring costs. The states of Paraná, Santa Catarina, Rio Grande do Sul and Mato Grosso do Sul will be sub-borrowers. As the executor of the Program, the Banco do Brasil will be responsible for the overall coordination, administration, orientation, accounting, monitoring and evaluation of execution. Its tasks include the verification of sub-borrower's

eligibility to access the Program's resources and the preparation of consolidated annual progress reports on execution and maintenance; monitoring contractual clauses; and management of the Program's monitoring system.

- 4.3 The Ministry of Tourism will support the Banco do Brasil with the (i) technical review of the Tourism Development Plans and large projects; (ii) management of Federal counterpart; (iii) monitoring the conditions established in the Operating Regulations; (iv) ensuring consistency of the states' environmental audits; and (v) evaluation of the Program. The Ministry of Tourism has been managing the technical review and quality control of Tourism Development Plans and feasibility studies during preparation of the Program. To do this, it has a director and three managers (technical, financial, and regional) and a technical staff. The Ministry contracts technical specialists for specific projects. To date the quality control process has been sufficient with respect to technical aspects, but needs strengthening in economic and environmental aspects to ensure effective ex-ante review of large projects. In addition, the Ministry will also contract a tourism expert with international experience to bring an international perspective and help the tourism experts in each state to understand the requirements of international tourists and to ensure that planning, project design, training and marketing meet those requirements.
- 4.4 Each state has a State Coordinating Unit, established by law, under the State Secretariat of Tourism. The State Coordinating Units will be the sub-executors of the Program and will submit all requests for projects in their Tourism Development Plans to the Banco do Brasil. They will prepare the Tourism Development Plans for new areas; provide guidance to state and municipal agencies on the application of criteria established in the Operating Regulations; review the technical, economic, environmental and financial analysis and the Logical Frameworks of all the projects included in the state's Tourism Development Plans; manage all project documentation on the preparation, evaluation, execution, finance and administration; implement a data base for supervising the physical and financial execution of the projects, monitor and evaluate the achievement of the Program's development indicators at the state level, and provide annual progress reports on execution, maintain adequate financial and accounting records of the funds assigned from the Program as well as adequate internal control procedures; and render accounts. The Banco do Brasil and the Ministry of Tourism are preparing a Program Implementation Manual that establish all procedures to be used during execution.
- 4.5 The State Coordinating Units are in the process of contracting the technical staff. The units will need a basic staff including a general coordinator, a technical coordinator, an infrastructure specialist, an environmental specialist, a tourism specialist, an accountant, procurement specialist, and an attorney. The basic staff will be complemented with specialists in relevant fields. The state's environmental agency will carry out periodic environmental audits of the Program's selected actions and will report simultaneously to the Banco do Brasil, the Ministry of Tourism, the State Coordinating Unit and the IDB.
- 4.6 The state or municipal agencies (declared eligible by the State Coordinating Units according to the rules established in the Program's Implementation Manual) will contract and supervise works and procurement of goods and services according to the responsibility assigned in local legislation. They will participate in the preparation of the Tourism Development Plans and

prepare the terms of reference, feasibility studies and final designs of the proposed projects, studies, and training programs identified in those plans. They will carry out bidding processes, prepare contracts; receive and approve consulting reports and completed works. They will forward technical and environmental supervision reports for works to the State Coordinating Units, and prepare invoices, certificates of completion of works and services and submit the corresponding documentation to the State Coordinating Units.

- 4.7 For each selected area, a Regional Tourism Council will be established, representing state and municipal governments, private tourism interests and local civil society. The Councils for the first four areas have already been established. The procedures for convocation and election of permanent members is in process.

C. Operating Regulations and conditions of eligibility

- 4.8 The Program will be governed by Operating Regulations. The draft Operating Regulations are available and include: (i) conditions for state eligibility; (ii) conditions for eligibility of projects and other actions; (iii) limits of autonomy for the State Coordinating Units and (iv) requirements for environmental monitoring and control. States will be eligible for loans from the Banco do Brasil if they: (i) are in compliance with the financial requirements specified in Brazilian Law; (ii) have Tourism Development Plans that have been approved by the Ministry of Tourism and ratified by their Regional Tourism Councils; and (iii) if the State Coordinating Units have the basic staff to analyze, supervise and financially manage the Program. Projects, studies, plans and training programs will be eligible if they: (i) are included in an approved Tourism Development Plan; (ii) have individual logical frameworks with baseline indicators specified that demonstrate their relation to the Program's development objectives and (iii) have demonstrated technical, economic, financial and socio-environmental feasibility according to guidelines specified in the Operating Regulations.
- 4.9 For projects that involve civil works, the Operating Regulations require community participation in project development and the presentation of environmental licenses for the installation of all works. For more complex civil works defined in the Operating Regulations, effective environmental supervision will be required as part of the general technical supervision of construction. The environmental agency of each state will do the environmental auditing.
- 4.10 The State Coordinating Units will evaluate and approve the technical, economic, financial and socio-environmental feasibility and the bidding documents and procedures of all projects that cost less than US\$ 5 million and all proposals for studies, plans, training programs and goods that cost less than US\$ 350,000. The Ministry of Tourism will review all projects and procurement above US\$ 5 million and all proposals for studies, plans, training programs and purchase of goods that cost more than US\$ 350,000. The Ministry of Tourism will also verify that the State Coordinating Units are properly interpreting and enforcing the Operating Regulations using a 10% sample of works, studies and acquisitions approved by the State Coordinating Units.

D. Financial Situation of the States

- 4.11 The analysis of the financial situation of the sub-borrowing states (Mato Grosso do Sul, Paraná, Rio Grande do Sul and Santa Catarina,) provides information on their potential capacity to borrow and provide counterpart. The analysis examines compliance with the Fiscal Adjustment Program signed by each state (Federal Law 9496/97) and with the indicators established by the Law of Fiscal Responsibility (Federal Law 101/00). These indicators will be analyzed by the Treasury at the time sub-loans are approved. The following table presents the targets and the levels achieved. [Annex IV](#) presents a detailed analysis of each state's budget execution for 1999-2003 and budget projections for 2004-2013.

Indicators	Santa Catarina	Mato Grosso do Sul	Rio Grande do Sul	Paraná
A. Law of Fiscal Responsibility				
Personnel Expenses / Net Current Income (%)				
• Result 2003	53.9	43.7	59.3	57.0
• Limit	<60.0	<60.0	<60.0	<60.0
Contracted Debt / Net Current Income (%)				
• Result 2003	2.2	2.3	2.9	1.9
• Limit	<16.0	<16.0	<16.0	<16.0
Debt Service / Net Current Income (%)				
• Result 2003	12.3	11.6	14.7	14.2
• Limit	<11.5	<11.5	<11.5	<11.5
Net Consolidated Debt Allowed / Net Current Income (times)				
• Result 2003	1.65	2.66	2.62	1.44
• Limit	<2.00	<2.00	<2.00	<2.00
B. Program of Fiscal Adjustment				
Financial Expenses / Net Real Income (%)				
• Result 2002	2.5	3.48	3.08*	1.55
• Target	<2.36	<3.82	<3.34	<1.67
Primary Result (millions of R\$)				
• Result 2002	(798)	174	207*	301
• Target	>546	>173	>(204)	>156
Personnel Expenses / Net Current Income (%)				
• Result 2002	58.73	56.52	67.20*	61.52
• Target	<59.15	<58.98	<67.68	<66.90
State – Generated Income (millions of R\$)				
• Result 2002	4.238	1.45	10.196*	5.716
• Target	>3.606	>1.42	>9.249	>5.292
Investment Expenses / Net Real Income (%)				
• Result	9.94	5.79	8.39*	10.73
• Upper limit	<10.37	<5.89	<7.91	<9.39

* Results 2003

- 4.12 Section A of the table above shows financial indicators calculated from 2003 audited fiscal information and compares the results with limits established by the Law of Fiscal Responsibility. Although all four states meet the law's limits on ratios of personnel expenses and contracted debt to net current income, their ratios of debt service to net current income is above the legal limit in all cases. In addition, the States of Mato Grosso do Sul and Rio Grande do Sul have a ratio of net consolidated debt to net current income ratios above the legal limit. In spite of their debt situation, Mato Grosso do Sul, Paraná and Santa Catarina comply with the requirements of eligibility for credit, since Federal Senate Resolution 40/01 establishes a waiver of the debt limit for credit operations that are included in the Fiscal Adjustment

Program (PAF). Rio Grande do Sul did not make provisions for the Program in its PAF 2001-2003, and therefore does not qualify for the waiver.

- 4.13 Law 9496/97 allows the Federal Government to take over, consolidate and refinance state debts, if the state signs a financial agreement with the Ministry of Finance agreeing to comply with financial targets each year. Section B of the table presents the agreed targets and shows that the states complied with these targets in most cases in 2002. Santa Catarina did not comply in 2002 with the targets for Primary Result and the ratio of Financial Expenses to Net Real Income because it had to provide additional capital to the Banco do Estado, an extraordinary item. The estimates for 2003 indicate that Santa Catarina will have a positive primary result. The States of Paraná and Rio Grande do Sul exceeded the limit of the ratio of Investment Expenses to Net Real Income in 2002 and 2003 respectively.
- 4.14 The financial projections for current and capital income and expenses cover the ten-year period 2004-2013. The projections are based on current information provided by the states. This information is subject to change over time. The financial projection is indicative of the outcomes expected given the current information and the assumptions. The projections here assume that the state will neither take on more debt nor make investments that are not foreseen in their Fiscal Adjustment Plans, and that they will not sell assets. The analyses show that the four states have a total capacity to borrow the amount provided for in their respective Fiscal Adjustment Programs. Based on these projections, the states have a combined capacity to take US\$ 150 million of debt and provide US\$ 100 million of counterpart for this Program.

E. Monitoring and Evaluation

- 4.15 The monitoring and evaluation system will be based on the indicators of the Program's Logical Framework (see Annex I). As part of preparation, each state prepares an individual Logical Framework for each area that it wishes to finance in the Program. Each state and its participating municipalities will collect information on the indicators of the Logical Frameworks. The Banco do Brasil will consolidate this information in a permanent monitoring and supervision system. The monitoring and evaluation system includes the indicators that are key to success, such as number of visitors, average stay, and average expenditure. The performance indicators and the instruments to collect them are being developed and are expected to be ready for approval prior to Board presentation, and the Banco do Brasil will have the core monitoring and evaluation system designed prior to first disbursement. There will be a mid-term review of execution. The review will cover the pace of execution, the effectiveness of the monitoring and the evaluation system, the quality of the technical analysis of the states for projects and studies that are not reviewed by the Ministry of Tourism and the adequacy of environmental procedures and monitoring. It will also review available evidence on the progress of the Program in increasing tourism flows, employment and foreign exchange.

V. DEVELOPMENT IMPACT

A. BENEFITS AND BENEFICIARIES

- 5.1 The economic benefits of tourism are of four types: (1) net foreign exchange earnings, (2) employment benefits, (3) redistribution benefits, (4) benefits to tourists. The Program will directly benefit local enterprises that work in tourism by improving the capacity of the destinations to satisfy visitors and to attract new markets, and by strengthening the capacities to manage and market their services. It will also benefit the employees of the tourism sector and new entrants, by improving their professional capacities and by providing work opportunities. The individual investments in the Program, mainly those in infrastructure and management, also benefit many people who are not necessarily related to the tourist industry. While not the principle focus of the project, these benefits are important to the justification of the individual projects and will be considered in the economic analysis.

B. Expected Results

- 5.2 As all areas of the PRODETUR/SUL Program have not yet been defined, it is not possible to estimate the final results. However, the Logical Framework provides the targets for the areas covered by the sample. The PRODETUR/SUL Program will contribute to the macro-objectives of the Government's National Tourism Plan (§2.10). The Goals of the Program are to increase employment, income and foreign exchange earnings. Data on employment and income in tourist activities are available at the municipal level and are presented in the Logical Framework. The contribution to Brazil's foreign exchange earnings will be seen in the travel account of the balance of payments, but the South's contribution cannot be broken out. The Purpose (direct result) of the Program will be the increase in expenditure of visitors to the project areas. Of particular importance from the national point of view is the increase in foreign visitor expenditure. This increase will be measured by the factors that compose it: number of visitors, average stay, and expenditure per person. The same factors will be measured for national visitors. Visitor satisfaction in each area will be monitored during and after execution. The baseline indicators appear in the Logical Framework.

C. PTI/SEQ Classification

- 5.3 This operation does not qualify as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (Document AB-1704). The project does not specify explicit performance indicators to measure poverty reduction and social equity enhancement.

D. Environmental and Social Impacts

- 5.4 Tourism projects can have positive social and environmental impacts that include (i) the generation of jobs and income and (ii) the protection and restoration of natural and cultural heritage that are the fundamental attractions of the South. Tourism can also have negative environmental and social impacts. The lessons learned from financing other operations in

Brazil have been incorporated (§2.14-2.17 and §2.19). The Program stresses planning and sequencing of investments to achieve strategic goals and to minimize negative environmental and social impacts associated with tourism growth and immigration inflows and to achieve an integrated and balanced set of actions and investments.

- 5.5 The problems most closely related to tourism that have been identified in some areas are those related to inappropriate land use (§2.6). Development and implementation of land use plans and strengthening the institutions that enforce them are foci of the present Program. Other problems such as contamination of beaches or ground water are caused by population presence, to which tourism contributes.
- 5.6 The infrastructure built for tourism projects has the usual impacts associated with its construction: removal of vegetation, localized erosion, water pollution, dust, noise, and traffic congestion. These impacts can be managed by known and standard measures that will be identified in the specific environmental impact studies required for each project, included in the bidding documents and enforced during execution, through the states' regional tourism councils, public consultations and environmental licensing concerning specific projects.
- 5.7 As part of the environmental and social strategy for the Program, the Ministry of Tourism, in coordination with the participating states, has undertaken a Programmatic Environmental Assessment that evaluates the Program's social and environmental feasibility. It analyzes the tourism strategies and development plans formulated by each state, identifies potential impacts of the group of projects and activities to be implemented, anticipates possible cumulative and synergistic impacts and benefits, and recommends measures to minimize negative impacts. Based on the States' Programmatic Environmental Assessments and its own analysis, the Project Team will prepare an Environmental and Social Management Report, which will integrate the analyses, assess potential strategic impacts and develop the Environmental and Social Management Plan for the Program.
- 5.8 The Environmental and Social Management Plan being designed considers one of the lessons learned from previous Bank operations that careful and participatory planning is needed in tourism development. The management of potential environmental and social impacts of the Program begins with a Tourism Development Plan for the selected area. These plans are developed on the basis of consultations with the stakeholders of the area, and the final plans are submitted for validation by the Regional Tourism Councils. The actions that are given priority for execution are submitted to the review processes required by law: environmental analysis or environmental impact assessment as required for environmental licensing (Resolução CONAMA 237/97 and states' legislation), and must comply with environmental and social requirements and specifications defined in the Operating Regulations. The costs of the measures identified for mitigation or control are included in the project budget and written into the bidding specifications. An Environmental and Social Management System will be developed to establish the procedures and safeguards to ensure environmental and social quality. The system will include control instruments, continuous monitoring and supervision and periodic audit and oversight, with clear responsibilities for the State Coordinating Units, the state environmental authorities, and the implementing technical units.

VI. ISSUES

A. Private Counterpart

- 6.1 The Government of Brazil has requested that the Bank accept private investment up to ten per cent of the Program en lieu of Government counterpart. Private counterpart was accepted in PRODETUR/NE II and is appropriate when the private sector finances activities usually undertaken by the public sector. The private-public model is endorsed by the Country Paper. The activities that are suggested for recognition as private counterpart are private investment in (i) water and sewerage systems, (ii) toll roads, (iii) airport terminals, (iv) docking facilities and terminals for cruise ships, and (v) convention centers. Proposed projects will be considered if they are included in the Tourism Development Plan, have demonstrated economic and financially sustainable on the basis of its cash flow, involve no operating subsidy, and include environmental responsibilities and sanctions for non-compliance in the bidding documents. In addition, the Program will consider private cost sharing for the implementation of marketing plans as part of the local counterpart as long as the activities are included in the marketing plan.

B. Limited Capacity for Project Analysis of the State Coordinating Units

- 6.2 As indicated in ¶4.10, the State Coordinating Units will approve projects up to certain limits and supervise projects. The States are in the process of staffing these Units. Each State Coordinating Unit will have to demonstrate its capacity to analyze and supervise execution before it will be eligible for a sub-loan. If the States are slow to demonstrate this capacity or if the capacity is less than expected, it could take longer than five years to execute the Program. This risk is reduced by the training that the Ministry of Tourism and the Banco do Brasil are providing and by a Program Implementation Manual that guides the State Coordinating Units, step by step, through all the execution procedures.

VII. STATE OF PROGRAM PREPARATION

- 7.1 The Ministry of Tourism has approved, and the Regional Tourism Councils have validated, four Tourism Development Plans. Draft Operating Regulations have been prepared and a sample based on them will be ready for analysis in October. The Ministry of Tourism has submitted the Programmatic Environmental Assessment for all states and the reports have been made available for public consultation. The Banco do Brasil and the Ministry of Tourism are currently preparing detailed implementation manuals to guide the State Coordinating Units during execution, and the states are presently revising the terms of reference, projects and individual Logical Frameworks of the sample in response to Bank comments.

PROGRAMA DE DESENVOLVIMENTO TURÍSTICO NO SUL DO BRASIL
PRODETUR/SUL (BR-0318)
Anexo I. Marco Lógico

OBJETIVOS	INDICADORES	MEIOS DE VERIFICAÇÃO	PRESSUPOSTOS																				
A. FINALIDADE																							
1. Gerar renda e emprego em turismo nas áreas do Programa 2. Contribuir positivamente para a conta de viagens da balança de pagos.	1.1 Número de empregos diretos gerados no setor de turismo aumenta conforme as metas: <table><tr><td>Área</td><td>2002</td><td>2010</td><td>2015</td></tr><tr><td>Costa Oeste</td><td>5,335</td><td>7,160</td><td>8,934</td></tr><tr><td>Serra Gaúcha</td><td>9,188</td><td>12,574</td><td>18,476</td></tr><tr><td>Serra da Bodoquena</td><td>961</td><td>1,352</td><td>1,726</td></tr><tr><td>Litoral Catarinense</td><td></td><td></td><td></td></tr></table>	Área	2002	2010	2015	Costa Oeste	5,335	7,160	8,934	Serra Gaúcha	9,188	12,574	18,476	Serra da Bodoquena	961	1,352	1,726	Litoral Catarinense				1.1 Dados para os grupos de atividades econômicas 551, 552, 621, 622, 633, 711 e classes de atividades econômicas 60240 e divisão de atividades econômicas de Relatório Anual de Informações Socais (RAIS) do Ministério de Trabalho e Emprego.	
	Área	2002	2010	2015																			
	Costa Oeste	5,335	7,160	8,934																			
	Serra Gaúcha	9,188	12,574	18,476																			
Serra da Bodoquena	961	1,352	1,726																				
Litoral Catarinense																							
1.2 Remuneração média da mão-de-obra direta empregada no setor do turismo. (R\$ constantes de 2003) <table><tr><td>Área</td><td>2002</td><td>2010</td><td>2015</td></tr><tr><td>Costa Oeste</td><td>486</td><td>535</td><td>562</td></tr><tr><td>Serra Gaúcha</td><td>530.9</td><td>574.0</td><td>634.7</td></tr><tr><td>Serra da Bodoquena</td><td>406.2</td><td>571.7</td><td>662.7</td></tr><tr><td>Litoral Catarinense</td><td></td><td></td><td></td></tr></table>	Área	2002	2010	2015	Costa Oeste	486	535	562	Serra Gaúcha	530.9	574.0	634.7	Serra da Bodoquena	406.2	571.7	662.7	Litoral Catarinense				1.2 Dados para as mesmas categorias citadas em 1.1 do Relatório Anual de Informações Sociais (RAIS) do Ministério de Trabalho e Emprego		
Área	2002	2010	2015																				
Costa Oeste	486	535	562																				
Serra Gaúcha	530.9	574.0	634.7																				
Serra da Bodoquena	406.2	571.7	662.7																				
Litoral Catarinense																							
1.3 Renda do ISS das municipalidades das áreas aumenta conforme as seguintes metas: referência (1997-2003). (milhões de R\$ constantes de 2003) <table><tr><td>Área</td><td>2003</td><td>2010</td><td>2015</td></tr><tr><td>Costa Oeste</td><td>10.9</td><td>12.0</td><td>12.6</td></tr><tr><td>Serra Gaúcha</td><td>38.2</td><td>69.5</td><td>93.9</td></tr><tr><td>Serra da Bodoq</td><td></td><td></td><td></td></tr><tr><td>Litoral Catarinen</td><td>143.5</td><td>180.4</td><td>226.8</td></tr></table>	Área	2003	2010	2015	Costa Oeste	10.9	12.0	12.6	Serra Gaúcha	38.2	69.5	93.9	Serra da Bodoq				Litoral Catarinen	143.5	180.4	226.8	1.3 Dados dos Balanços municipais. Secretaria de Finanças Municipais e Tribunal de Contas Estaduais.		
Área	2003	2010	2015																				
Costa Oeste	10.9	12.0	12.6																				
Serra Gaúcha	38.2	69.5	93.9																				
Serra da Bodoq																							
Litoral Catarinen	143.5	180.4	226.8																				
1.4 Investimento privado em turismo aumenta conforme as metas: Investimento Privado Acumulado (R\$ constantes de 2003) <table><tr><td>Área</td><td>2003</td><td>2010</td><td>2015</td></tr><tr><td>Costa Oeste</td><td>9.3</td><td>11</td><td>12</td></tr><tr><td>Serra Gaúcha</td><td>34.8</td><td>243.4</td><td>710.4</td></tr><tr><td>Serra da Bodoquena</td><td></td><td></td><td></td></tr><tr><td>Litoral Catarinense</td><td></td><td></td><td></td></tr></table>	Área	2003	2010	2015	Costa Oeste	9.3	11	12	Serra Gaúcha	34.8	243.4	710.4	Serra da Bodoquena				Litoral Catarinense				1.4 Secretarias de Turismo dos estados		
Área	2003	2010	2015																				
Costa Oeste	9.3	11	12																				
Serra Gaúcha	34.8	243.4	710.4																				
Serra da Bodoquena																							
Litoral Catarinense																							

OBJETIVOS	INDICADORES	MEIOS DE VERIFICAÇÃO	PRESSUPOSTOS
	2.1 Receita de divas no Sul do Brasil aumenta: US\$ milhões <div><div>2003</div><div>2010</div><div>2015</div></div> <div>326.1452.8572.4</div>	2.1 Dados de EMBRATUR com nota metodológica de 30 de julho de 2004.	
B. PROPÓSITO DO PROGRAMA			
1. O gasto dos turistas aumenta nas áreas do Programa.	1.1 Numero de turistas estrangeiros nas áreas aumenta: <div>(miles)</div> <div><div>Área</div><div># em2003</div><div># em2010</div><div># em2015</div></div> <div>Costa Oeste</div> <div>Mercosul200267387</div> <div>Larga distancia175235340</div> <div>Serra Gaúcha</div> <div>Mercosul229315378</div> <div>Larga distancia315594</div> <div>Serra da Bodoquena</div> <div>Mercosul2.23.13.6</div> <div>Larga distancia12.317.320.1</div> <div>Litoral Catarinense</div> <div>Mercosul246.3761.81,235.1</div> <div>Larga distancia</div>	1.1 Dados das Secretarias de Turismo dos estados e projecções dos PDITS.	O setor privado faz investimentos em capacidade hoteleira e atractivos turísticos. O setor privado contribui de maneira sostenida à promoção de turismo nas áreas prioritarias.
	1.2 Numero de turistas nacionais nas áreas aumenta: <div># en# en# en</div> <div><div>Área</div><div>2003</div><div>2010</div><div>2015</div></div> <div>Costa Oeste6118191,186</div> <div>Serra Gaúcha1,6922,4073,072</div> <div>Serra da Bodoquena6287101</div> <div>Litoral Catarinense1,5752,0842,352</div>	1.2 Dados das Secretarias de Turismo dos estados e projecções dos PDITS.	

OBJETIVOS	INDICADORES	MEIOS DE VERIFICAÇÃO	PRESSUPOSTOS																																																				
	1.3 Gasto médio diário por pessoa dos turistas estrangeiros aumenta em reais constantes de 2003: <table><tr><td><u>Área</u></td><td><u>2003</u></td><td><u>2010</u></td><td><u>2015</u></td></tr><tr><td>Costa Oeste</td><td></td><td></td><td></td></tr><tr><td> Mercosul</td><td>190</td><td>209</td><td>220</td></tr><tr><td> Larga distancia</td><td>409</td><td>450</td><td>472</td></tr><tr><td>Serra Gaúcha</td><td></td><td></td><td></td></tr><tr><td> Mercosul</td><td>120</td><td>161</td><td>201</td></tr><tr><td> Larga distancia</td><td>298</td><td>350</td><td>378</td></tr><tr><td>Serra da Bodoquena</td><td></td><td></td><td></td></tr><tr><td> Mercosul</td><td>155</td><td>265</td><td>339</td></tr><tr><td> Larga distancia</td><td>264</td><td>451</td><td>576</td></tr><tr><td>Litoral Catarinense</td><td></td><td></td><td></td></tr><tr><td> Mercosul</td><td>181</td><td>211</td><td>228</td></tr><tr><td> Larga distancia</td><td></td><td></td><td></td></tr></table>	<u>Área</u>	<u>2003</u>	<u>2010</u>	<u>2015</u>	Costa Oeste				Mercosul	190	209	220	Larga distancia	409	450	472	Serra Gaúcha				Mercosul	120	161	201	Larga distancia	298	350	378	Serra da Bodoquena				Mercosul	155	265	339	Larga distancia	264	451	576	Litoral Catarinense				Mercosul	181	211	228	Larga distancia				1.3 Pesquisa bianual de turistas.	
	<u>Área</u>	<u>2003</u>	<u>2010</u>	<u>2015</u>																																																			
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	1.4 Gasto médio diário por pessoa dos turistas nacionais aumenta em reais constantes de 2003: <table><tr><td><u>Área</u></td><td><u>2003</u></td><td><u>2010</u></td><td><u>2015</u></td></tr><tr><td>Costa Oeste</td><td>190</td><td>209</td><td>220</td></tr><tr><td>Serra Gaúcha</td><td>37</td><td>42</td><td>46</td></tr><tr><td>Serra da Bodoquena</td><td>130</td><td>151</td><td>285</td></tr><tr><td>Litoral Catarinense</td><td>53</td><td>60</td><td>65</td></tr></table>	<u>Área</u>	<u>2003</u>	<u>2010</u>	<u>2015</u>	Costa Oeste	190	209	220	Serra Gaúcha	37	42	46	Serra da Bodoquena	130	151	285	Litoral Catarinense	53	60	65	1.4 Pesquisa bianual de turistas.																																	
<u>Área</u>	<u>2003</u>	<u>2010</u>	<u>2015</u>																																																				
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	1.5 Estadia media de turistas estrangeiros nas áreas aumenta: (noites) <table><tr><td><u>Área</u></td><td><u>2003</u></td><td><u>2010</u></td><td><u>2015</u></td></tr><tr><td>Costa Oeste</td><td>3.0</td><td>3.6</td><td>4.0</td></tr><tr><td> Mercosul</td><td>3.3</td><td>4.2</td><td>4.5</td></tr><tr><td> Larga distancia</td><td>2.4</td><td>3.0</td><td>3.5</td></tr><tr><td>Serra Gaúcha</td><td>3.6</td><td>4.6</td><td>5.6</td></tr><tr><td> Mercosul</td><td>2.8</td><td>3.7</td><td>4.7</td></tr><tr><td> Larga distancia</td><td>6.0</td><td>7.0</td><td>7.5</td></tr><tr><td>Serra da Bodoquena</td><td></td><td></td><td></td></tr><tr><td> Mercosul</td><td>3.5</td><td>4.0</td><td>4.0</td></tr><tr><td> Larga distancia</td><td>3.5</td><td>4.0</td><td>4.0</td></tr><tr><td>Litoral Catarinense</td><td></td><td></td><td></td></tr><tr><td> Mercosul</td><td>10.2</td><td>10.6</td><td>10.9</td></tr><tr><td> Larga distancia</td><td></td><td></td><td></td></tr></table>	<u>Área</u>	<u>2003</u>	<u>2010</u>	<u>2015</u>	Costa Oeste	3.0	3.6	4.0	Mercosul	3.3	4.2	4.5	Larga distancia	2.4	3.0	3.5	Serra Gaúcha	3.6	4.6	5.6	Mercosul	2.8	3.7	4.7	Larga distancia	6.0	7.0	7.5	Serra da Bodoquena				Mercosul	3.5	4.0	4.0	Larga distancia	3.5	4.0	4.0	Litoral Catarinense				Mercosul	10.2	10.6	10.9	Larga distancia				1.5 Pesquisa bianual de turistas.	
<u>Área</u>	<u>2003</u>	<u>2010</u>	<u>2015</u>																																																				
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OBJETIVOS	INDICADORES	MEIOS DE VERIFICAÇÃO	PRESSUPOSTOS																				
	<div>1.6 Estadia media de turistas nacionais nas áreas aumenta:</div> <div>(noites)</div> <table><tr><td>Área</td><td>2003</td><td>2010</td><td>2015</td></tr><tr><td>Costa Oeste</td><td>3,1</td><td>4.0</td><td>4.5</td></tr><tr><td>Serra Gaúcha</td><td>9.4</td><td>11.0</td><td>12.0</td></tr><tr><td>Serra da Bodoquena</td><td>3.1</td><td>3.6</td><td>3.8</td></tr><tr><td>Litoral Catarinense</td><td>9.8</td><td>10.2</td><td>10.5</td></tr></table>	Área	2003	2010	2015	Costa Oeste	3,1	4.0	4.5	Serra Gaúcha	9.4	11.0	12.0	Serra da Bodoquena	3.1	3.6	3.8	Litoral Catarinense	9.8	10.2	10.5	1.6 Pesquisa bianual de turistas.	
Área	2003	2010	2015																				
Costa Oeste	3,1	4.0	4.5																				
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Serra da Bodoquena	3.1	3.6	3.8																				
Litoral Catarinense	9.8	10.2	10.5																				
C. PROPÓSITO DOS COMPONENTES																							
<div>1. COMPONENTE 1</div> <div>FORTALECIMENTO DA CAPACIDADE DOS ESTADOS E MUNICÍPIOS PARA PLANEJAR, GERÊNCIAR E APROVEITAR O TURISMO.</div> <div>PROPÓSITO</div> <div>Os Estados e os municípios melhoram sua capacidade de planejar, gerenciar e aproveitar os benefícios do turismo.</div>	<div>Numero de planos diretores implantados</div> <div>Numero de planos de fortalecimento institucional implementados</div>		<div>Novos procedimentos de imigração y de visas no desalentam os turistas estrangeiros.</div> <div>A valor relativo do Real no varia de maneira adversa a moeda dos principais países que geram a demanda para turismo</div>																				
<div>2. COMPONENTE 2</div> <div>MELHORAS NOS ATRACTIVOS DE PROPRIEDADE PUBLICA E A GESTÃO DOS MESMOS</div> <div>PROPÓSITO</div> <div>Os atractivos de propriedade publica recebem mais visitas e o nível de satisfação com as condições é satisfatório</div>	<table><tr><td>Atractivo</td><td>Visitas em 2003</td><td>Visitas em 2008</td></tr><tr><td>Atractivo</td><td>% Qualificação Satisfatório em 2004</td><td>% Qualificação Satisfatório em 2008</td></tr></table>	Atractivo	Visitas em 2003	Visitas em 2008	Atractivo	% Qualificação Satisfatório em 2004	% Qualificação Satisfatório em 2008	<div>Estatísticas de entrada</div> <div>Pesquisa de satisfação</div>	<div>As melhoras em destinos que concorrem com as áreas do Programa não tem um impacto significativo sobre os segmentos do mercado atendidos por PRODETUR/SUL.</div> <div>Novos actos de terrorismo não afectam a demanda internacional de turismo.</div>														
Atractivo	Visitas em 2003	Visitas em 2008																					
Atractivo	% Qualificação Satisfatório em 2004	% Qualificação Satisfatório em 2008																					

OBJETIVOS	INDICADORES	MEIOS DE VERIFICAÇÃO	PRESSUPOSTOS
<p>3. COMPONENTE 3</p> <p>INFRA-ESTRUTURA PARA PERMITIR O ACESSO, PROVER SERVIÇOS PÚBLICOS E CONTROLAR IMPACTOS AMBIENTAIS</p> <p>PROPÓSITO A infra-estrutura da área permite acesso e a provisão de bons serviços aos turistas.</p>			
<p>4. COMPONENTE 4</p> <p>PROMOÇÃO NA PROVISÃO DE INFORMAÇÃO</p> <p>PROPÓSITO A comercialização das áreas e a provisão de informação no sitio atrai mais turistas para as áreas e induz uma estadia mais longa.</p>	<p><u>Web site</u> # de consultas # de consultas <u>Em 2003</u> <u>em 2008</u></p> <p>Costa Oeste Serra Gaúcha Serra da Bodoquena Litoral Catarinense</p> <p>% satisfeito <u>Em 2003</u> <u>em 2008</u> com sinalização <u>turística</u></p> <p>Costa Oeste Serra Gaúcha Serra da Bodoquena Litoral Catarinense</p>	<p>Dados dos sites dos Estados</p> <p>Pesquisas de satisfação realizadas pelo Programa</p>	

OBJETIVOS	INDICADORES	MEIOS DE VERIFICAÇÃO	PRESSUPOSTOS
<p>5. COMPONENTE 5</p> <p>APOIO AO SECTOR PRIVADO PARA QUE PROVEJA SERVIÇOS TURÍSTICOS E DE INFRA-ESTRUTURA</p> <p>PROPÓSITO O sector privado esta induzido a melhorar a qualidade dos serviços turísticos, proporcionar novos e investir em serviços de infra-estrutura.</p>	<p>Número de graduados dos programas de capacitação.</p> <p>Número de estudos de oportunidades de investimento privado.</p> <p>Número de oportunidades aceites e efectuadas pelo sector privado</p>		

Brazil
Tourism Development Program for the South of Brazil
PRODETUR SUL
BR-0318
Estimated Preparation costs

	US\$
	Administrative Budget
	BID
1. Missions	
1.1 Analysis	30,360
2. Consultants	
2.1 Financial Analysis Sanitation Cos.	35,459
2.2 Financial Analysis of States and Muni	3,605
2.3 Strategic Environmental Assessment	5,183
2.4 Tourism Strategy and Performance Ind	12,382
2.5 Economic Analysis of Sample Projects	2,526
2.6 Operating Regulations	8,581
2.7 Technical Analysis Transportation Proj	635
2.8 Technical Analysis Sanitation Projects	2,385
2.9 Technical Analysis Other Projects	3,196
Total	104,312

ANNEX III, PRINT FROM LINK

<http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=344871>

ANNEX IV, PRINT FROM LINK

<http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=352623>

**ANEXO III
(US M)**

Mato Grosso do Sul		Custo
Termos de referencia		
1	Plano de fortalecimento institucional de Bonito	50,000
2	Plano Diretor Municipal de Bonito	50,000
3	Plano de Fortalecimento Institucional do município de Bodoquena	50,000
4	Plano Diretor Municipal de Bodoquena	50,000
5	Plano de Fortalecimento Institucional do município de Jardim	50,000
6	Plano Diretor Municipal de Jardim	50,000
7	Plano de Fortalecimento institucional do sector turismo no estado	150,000
8	Estudo do sistema de manejo da visitação dos balneários municipais Bonito Jardim	25,000
9	Estudo hidrogeológico dos municípios de Bodoquena e Bonito	400,000
#	Estudo do sistema de ordenamento ambiental de la sub-bacia hidrográfica do Rio I	45,000
#	Plano de ampliação da rede de monitoramento de agua da bacia do rio Miranda	225,000
#	Plano de sinalização turística	30,000
#	Melhoria estradas vicinais em Jardim	70,000
#	Melhoria estradas vicinais em Bonito	85,000
Obras		
1	Pavimentação da estrada Bonito-Bodoquena S-178	11,000,000
2	Abastecimento de água e esgotamento sanitário em Bonito Jardim e Bodoquena	6,800,000
Total		19,130,000

Paraná		Custo
Termos de Referencia		
1	Plano Diretor Municipal Guaira	50,000
2	Plano Diretor Municipal - Mar.Candido Rondón	50,000
3	Plano Diretor municipal - Entrerios Oeste	35,000
4	Plano de fortalecimento institucional de Guaira	35,000
5	Fortalecimento de Turismo no Ambito Estatal (SETUR y PARANATUR)	100,000
6	Plano de Capacitação	70,000
Obras		
1	Melhorias no acesso ao Refugio Bela Vista	225,000
2	Ampliação do sistema de esgotamento sanitário - Projeto 2 Foz Iguazú	3,000,000
4	Implantação do Centro Receptivo Turístico Trevo Café Presidente	500,000
Total		4,065,000

Rio Grande do Sul		Custo
Termos de Referencia		
1	Plano Diretor municipal de Sao Jose dos Ausentes	85,000
2	Plano Diretor Municipal de Cambara do Sul	60,000
3	Fortalecimento Institucional do Município de Cambara do Sul	30,000
4	Fortalecimento Institucional da Secretaria de Estado do Turismo, Esporte e Lazer	110,000
5	Levantamento métrico-arquitectónico do complexo ferroviário Rua Dr Augusto Pes	100,000
6	Diagnóstico ambiental y bases para creación de UC en Monte Negro	80,000
7	Plano de sinalização turística	40,000
Obras		
1	Implementação sistema coleta afastamento e tratamento esgoto-Canela	2,000,000
2	Implantação sistema de coleta, afastamento e tratamento de esgoto- Gramado	2,250,000
3	Saneamento de São Jose dos Ausentes	250,000
Total		5,005,000

Santa Catarina		Custo
Termos de Referencia		
1	Plano Diretor Municipal do Balneário Camboriu	50,000
2	Plano Diretor Municipal- Bombinhas	50,000
3	Plano Diretor Municipal- Porto Belo	50,000
4	Plano de Fortalecimento institucional de Blumenau	35,000
5	Fortalecimento da gestão estadual do turismo	170,000
6	Plano de manejo do Parque Municipal da Lagoa do Peri	85,000
#	Plano de sinalização turística	100,000
Obras		
1	Sistema de esgoto sanitário de Camboriu e Balneário Camboriu	3,500,000
2	Sistema de esgotamento sanitário de Porto Belo	2,000,000
3	Túnel do Morro Cristo Luz	6,000,000
4	Sistema integrado de agua y esgoto: Bombinhas, Porto Belo e Itapema	9,000,000
Total		21,040,000

Total Amostra Atual em USD 49,240,000

Outras atividades que poderiam entrar na amostra

Termos de Referencia		Custo
1	Melhoria estradas vicinais Bodoquena	90,000
2	Projeto de visitaçao da Gruta do Lago Azul	175,000
3	Recuperação área marginal do lago	1,000,000
Obras		
1	Revitalização área fronteira. Paraná	1,300,000
2	Balneário Prainha 3 Lagoas. Paraná	475,000
3	Restauração Edificação Histórica Almoxarifado	190,000
4	Projeto Resgate e Ampliação do Antigo Porto Rio Itají-Acú	150,000
5	Urbanização da Avenida das Cataratas	1,100,000
6	Primer Módulo Rota do Encanto	6,000,000
7	Sistema Integrado de Agua Bombinhas Porto Belo e Itapema	5,000,000
Total		15,480,000

Total Amostra Esperada em USD 64,720,000

Annex IV

Brazil -0318 PRODETUR/SUL

The Financial Situation of the States

I. Introduction

- 1.1 As part of project preparation, the Project Team prepared a financial analysis for each of the four participating States. The financial analysis covers three aspects: Fiscal Budgetary Execution; Budgetary Income and Expense Projections; and Compliance with the Brazilian legislation to contract new debt.
- 1.2 Fiscal Budgetary Execution. Financial data was analyzed for 1999 to 2003. The conclusions of the States' Financial performance were made based on the following indicators: current surplus/(deficit); fiscal surplus/(deficit); and primary result.
- 1.3 Budgetary Income and Expense Projections. Financial projections were made for years 2004-2013 to measure the State Governments' expected income capacity to provide the local counterpart and meet their debt service for the Program. These projections took into consideration the transfers, investments and debt service required by the Prodetur Program. The assumptions are: a) income and expenditures information for 2004 based on the Budgetary Law of the State for that year; b) income and expenditure projections for 2005 and 2006 are based on the inflation rate and GDP growth rate defined in the State's Law of Budgetary Guidelines for those years; c) the investments to total income average ratio is based on the average from 1999 to 2003 period; d) annual disbursements and local counterpart of 5%, 15%, 30%, 30%, and 20% for 2005 to 2009, keeping a 60:40 financing to local counterpart ratio; e) a federal counterpart of US\$40 million equally distributed among the four States; f) the financial conditions on the sub-loans, include: a 5% interest rate, .25% credit commission, 1% fee from Banco do Brasil to cover risk and expenses, in a five year disbursement period; and g) no additional credit or sale of assets.
- 1.4 Compliance with the Brazilian legislation to contract new debt. In order for a State to contract new debt, it has to comply with: a) legal limits on financial ratios established in the Law of Fiscal Responsibility (Federal Law 101/00); and b) the targets identified in its Fiscal Adjustment Program (PAF) established in the Federal Law No 9496/97, whenever a Program has been signed between a State and the Federal Government. As part of the analysis for each State, the team has reviewed the compliance with both legislations.

- 1.5 Based on information provided by the States to evaluate the Fiscal Budgetary Execution, and the Budgetary Income and Expense Projections the following preliminary conclusions can be made: a) Three of the four States: Santa Catarina, Mato Grosso do Sul, and Parana have the capacity to borrow the amount stated in their PAF: US\$60 million, US\$30 million, and US\$60 million respectively. The projections for Rio Grande do Sul show a fiscal deficit for the next ten years, which would not allow the State to provide the necessary local counterpart or to service additional debt. This results in a combined capacity of US\$150 million financing and US\$100 million counterpart; and b) Under the assumption that other Programs of investments to be financed by the State in its PAF would not be undertaken, the States' combined total borrowing capacity amounts to US\$230 million. They would also be able to provide local counterpart of US\$154 million. However, none of the States has, as of now, requested additional financing in their PAF for Prodetur. An explicit change in their investment priorities would be needed to allocate a larger amount for Prodetur.
- 1.6 The review of the legal limits established in the Federal Law 101/00 indicates that the four states are not in compliance with one of the requirements (debt service / net current income). However, the Resolution of the Federal Senate No 40/01 waives this limit for credit operations that are included in the PAF. Therefore, this lack of compliance is not a legal restriction to contract debt.
- 1.7 Regarding the compliance of the States with the benchmarks established in their PAF for 2002, Mato Grosso do Sul shows full compliance, while Rio Grande do Sul and Parana complied with five of their six targets, and Santa Catarina has complied with four of its six targets. The compliance information for the States of Santa Catarina, Parana, and Mato Grosso do Sul for the year 2003 is not yet available.

II. State of Santa Catarina

A. Fiscal Budgetary Execution:

- 2.1 The State's budgetary information shows adequate financial management of fiscal resources. In 2003, a current surplus was achieved for the fifth consecutive year, which contributed to a fiscal surplus after a negative result in 2002. In the latter year, the State Government allocated resources for the capitalization of Banco do Estado, an extraordinary event. Likewise, the primary result for 2003 was positive in R\$594 million. Currently, the State is implementing a program to increase its income and reduce its expenses so that it can comply with all targets of the PAF.

Table 1 Financial Situation of the State of Santa Catarina 1999-2003 (Millions of Current Reales) ¹					
	1999	2000	2001	2002	2003
Current Income	3,037	3,725	4,969	5,695	6,710
Income Taxes	2,424	3,013	4,029	4,444	5,141
Current Transfers	613	712	940	1,251	1,345
Other Current Income	0	0	0	0	224
Current Expenses	2,880	3,396	4,445	5,356	6,073
Personnel Expenses	1,651	1,871	2,340	2,658	3,049
Current Transfers	226	239	204	285	404
Other Current Expenses	1,003	1,286	1,901	2,413	2,620
Current Surplus	157	329	524	339	637
Capital Expenses	489	1,727	514	1,835	600
Investments and Transfers	484	1,701	470	1,803	600
Other Capital Expenses	5	26	44	32	0
Capital Income	0	572	101	285	38
Credit Operations	938	895	9	1,034	112
Fiscal Surplus / Deficit	606	69	120	(177)	187
Primary Result	317	354	466	(798)	594

B. Budgetary income and expense projections

- 2.2 In addition to the assumptions indicated in ¶1.3, the projections for Santa Catarina included the results of the implementation of the above mentioned program. These are the following: i) an annual average increase in income of 8.55% and in expenses 8.0% for 2005; ii) a 6% increase in income and expenses for 2006 to 2013; and iii) a 5% increase in personnel expenses for the whole period. These rates are meant to allow the state both to comply with the limits in the Law of Fiscal Responsibility and to achieve the financial targets established in the 2004 Law of Budgetary Guidelines. These rates are equivalent to the expected real rate

¹ Exchange rate to the US dollar: 1999=1.8162, 2000=1.9546, 2001=2.3207, 2002=3.5405, 2003= 2.8884

of increase of the state's GDP, a proxy variable for rate of growth of taxation. The rate of growth of expenditures will allow the State to reduce its Personnel Expenses/Total Expenses ratio from 60% to 40%. These rates can be considered conservative, given the average annual rate of change of more than 22% and 20.7% in income and expenses between 1999 and 2003, respectively.

- 2.3 The analysis shows that Santa Catarina will have sufficient funds over time to meet its debt service obligations for the US\$60 million loan stated in its PAF, as well as to provide a local counterpart of US\$40 million. Line 5 shows that after considering Prodetur, there is still some room for additional financing and local counterpart. In order to calculate the maximum capacity to undertake debt and provide local counterpart, a sensitivity analysis was made. Additional debt, debt service, and local counterpart were added in line 6 until the fiscal result became zero or close to zero. After an additional US\$19 million, the fiscal result for the year 2006 became negative R\$.05 million. Therefore, the maximum borrowing capacity for Santa Catarina would be US\$79 million. This assumes that other investment Programs included in the PAF would not be undertaken.

Table 2 Financial Projections for the State of Santa Catarina, 2004 – 2013 (Million of Reales)										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Income	7,557	7,570	8,025	8,506	9,016	9,557	10,131	10,739	11,384	12,066
Current Income	6,945	7,538	7,991	8,470	8,978	9,517	10,088	10,693	11,335	12,015
Capital Income	612	32	34	36	38	40	43	46	49	51
2. Expenses	7,288	7,553	7,997	8,434	8,895	9,369	9,856	10,385	10,943	11,530
Current Expenses	6,530	6,873	7,275	7,669	8,085	8,524	8,986	9,474	9,989	10,532
Capital Expenses	758	680	722	765	810	845	870	911	954	998
<i>Investments</i>	449	347	368	390	413	438	464	492	522	553
<i>Amortization</i>	309	333	354	375	397	407	418	431	444	457
3. Result Before Prodetur	269	17	28	72	121	188	275	354	441	536
4. Prodetur (60mm)	0	4.5	15.5	31	34	27	23	22	21	20
<i>S. Counterpart</i>	0	10.5	19.5	33	33	24	0	0	0	0
<i>F. Counterpart</i>	0	-6	-6	-6	-6	-6	0	0	0	0
<i>Debt Service</i>	0	0	2	4	7	9	23	22	21	20
5. Result After Prodetur	269	12.5	12.5	41	87	161	252	332	420	516
6. Prodetur(+19mm)	0	4	13	25	27	22	19	18	17	16
7. Fiscal Result	269	8.5	-.05	16	60	139	233	314	403	500

C. Compliance with the Brazilian legislation to contract new debt:

- 2.4 The State is in compliance with all the ratios established in the Law of Fiscal Responsibility, except the ratio of Debt Service / Net Current Income. However, the Resolution of the Federal Senate 40/01 waives this limit for credit operations that are included in the PAF. In the Fiscal Adjustment Program (contract 012/98/STN/COAFI) there is a provision to contract debt for Santa Catarina for

this operation; therefore, this limit has been waived for Prodetur/Sul. The table below presents the State's compliance with the legal limits established in the Law:

Table 3 Law of Fiscal Responsibility Ratios		
Ratios	Legal Limit	Results 2003
Annual Personnel Expenses / Net Current Income	60.00%	53.9%
Amount of Contracted Debt During the year / Net Current Income	16.00%	2.18%
Debt Service / Net Current Income	11.50%	12.32%
Net Consolidated Debt Allowed / Net Current Income	2 times	1.65 times

- 2.5 The following table presents the targets and results for 2002 indicators established in the PAF contract:

Table 4 PAF Compliance		
Ratios	Agreed Targets 2002	Results 2002
Financial Expenses / Net Real Income	Limited to 2.36%	2.5%
Primary Result	R\$ 546 millions	(R\$798) millions
Personnel Expenses / Net Current Income	59.15%	58.73%
Minimum increase in Income generated by the State	R\$3.606 millions	R\$4.238 millions
Income from Privatization / Concessions	Not an assigned value	R\$195.52 millions
Expenses with investments / Net Real Income	Maximum of 10.34%	9.94%

- 2.6 The targets for the year 2002 were partially accomplished. Due to the 2002 capitalization of Banco do Estado, an extraordinary item, Santa Catarina did not reach the targets for Primary Result and Financial Expenses/Net Real Income. Nevertheless, we have estimated a positive Primary Result of R\$594 million. The Bank has not yet received the result of the evaluation made for 2003. The information will be available before the analysis mission.

III. State of Mato Grosso do Sul

A. Fiscal budgetary execution

- 3.1 The analysis shows that the State Government of Mato Grosso do Sul achieved a Current Surplus in the last three years. Although the Total Income did not cover Total Expenses at all times, the State Government was able to achieve positive Primary Results during all five years due to a careful management of Credit Operations to comply with the PAF. The Fiscal deficits in the years 2000 and 2002 occurred as a result of the amortization of external debt. An increase in Personnel Expenses of 58.55% and Other Current Expenses of 70.53% created a temporary Fiscal Deficit in 2003.

Table 1 Financial Situation of the State of Mato Grosso do Sul 1999-2003 (Millions of Current Reales) ¹					
	1999	2000	2001	2002	2003
Current Income	1,216	1,435	1,714	1,914	2,910
Income from Taxes	957	1,110	1,339	1,452	2,232
Current Transfers	259	325	375	462	637
Other Current Income	0	0	0	0	41
Current Expenses	1,159	1,443	1,511	1,777	2,822
Personnel Expenses	672	727	759	871	1,381
Current Transfers	79	69	84	139	132
Other Current Expenses	408	647	668	767	1,309
Current Surplus	57	(8)	203	137	88
Capital Expenses	108	701	217	259	441
Investments and Transfers	107	701	217	259	441
Other Capital Expenses	1	0	0	0	0
Capital Income	31	2	4	78	198
Credit Operations	20	588	21	22	49
Fiscal Surplus / Deficit	0	(119)	11	(22)	(106)
Primary Result	99	12	180	174	46

B. Budgetary income and expense projections

- 3.2 Besides the common assumptions indicated in ¶1.3, the projections for Mato Grosso do Sul assumed: i) an annual average increase in income and expenses of 9.0% for 2005; ii) an 8.5% increase of income and expenses in 2006; and iii) a 4% increase for 2007 to 2013. These rates are meant to allow the State both to comply with the limits in the Law of Fiscal Responsibility and to achieve the financial targets established in the 2004 Law of Budgetary Guidelines. The rates are equivalent to the expected real rate of increase of the State's GDP, a proxy

¹ Exchange rate to the US dollar: 1999=1.8162, 2000=1.9546, 2001=2.3207, 2002=3.5405, 2003= 2.8884

variable for rate of growth of taxation. These rates can be considered conservative, given the average annual rate of change of 8.54% experienced in the last five years and is lower than the projected inflation in Brazil.

- 3.3 The analysis shows that Mato Grosso do Sul will have sufficient funds over time to meet the debt service obligations of the requested US\$30 million loan specified in its PAF, as well as to provide a local counterpart of US\$20 million. Line 5 shows that after considering Prodetur, there is still some room for additional financing and local counterpart. In order to calculate the maximum capacity to undertake debt and provide local counterpart, a sensitivity analysis was made. Additional debt, debt service, and local counterpart were added in line 6 until the fiscal result became zero or close to zero. After an additional US\$30 million, the fiscal result for the year 2005 became R\$.2 million. Therefore, the maximum borrowing capacity for Mato Grosso do Sul would be US\$60 million. This assumes that other investment Programs included in the PAF would not be undertaken.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Income	3,627	3,606	3,913	4,069	4,231	4,401	4,577	4,760	4,951	5,149
Current Income	3,228	3,519	3,818	3,971	4,129	4,295	4,466	4,645	4,831	5,024
Capital Income	399	87	95	98	102	106	111	115	120	125
2. Expenses	3,437	3,597	3,811	3,963	4,122	4,286	4,452	4,630	4,816	5,009
Current Expenses	2,834	3,047	3,229	3,359	3,493	3,632	3,778	3,929	4,086	4,250
Capital Expenses	603	550	582	604	629	654	674	701	730	759
Investments	466	403	425	441	460	478	497	517	538	559
Amortization	137	147	157	163	169	176	177	184	192	200
3. Result Before Prodetur	190	9	102	106	109	115	125	130	135	140
4. Prodetur(30mm)	0	2.5	5.5	11	12	11	11	11	12	10
S. Counterpart	0	7.5	10.5	15	15	12	0	0	0	0
F. Counterpart	0	-6	-6	-6	-6	-6	0	0	0	0
Debt Service	0	1	1	2	3	5	11	11	12	10
5. Result After Prodetur	190	6.5	96.5	95	97	104	114	119	123	130
6. Prodetur(+18mm)	0	6.3	13.8	27.5	30	27.5	27.5	27.5	30	25
7. Fiscal Result	190	.2	82.7	67.5	67	76.5	86.5	91.5	93	105

C. Compliance with the Brazilian legislation to contract new debt

- 3.4 The State is in compliance with all the ratios established in the Law of Fiscal Responsibility 101/00, except the ratio of Debt Service / Net Current Income, and the Net Consolidated Debt Allowed / Net Current Income. However, the Resolution of the Federal Senate No. 40/01 waives this limit for the credit operations that are included in the PAF. In the Fiscal Adjustment Program there is a provision to contract debt for Mato Grosso do Sul for this operation;

therefore, this limits have been waived for Prodetur/Sul. Furthermore, the PAF considers intermediate targets for the Net Consolidated Debt Allowed / Net Current Income ratio and gives the State until 2016 to reach the target specified in the Law. The State is in compliance with the intermediate targets. The table below presents the State's compliance with the legal limits established in the Law:

Table 3 Law of Fiscal Responsibility Ratios		
Ratios	Legal Limit	Results 2003
Annual Personnel Expenses / Net Current Income	60.00%	43.7%
Amount of Contracted Debt During the year / Net Current Income	16.00%	2.31%
Debt Service / Net Current Income	11.50%	11.60%
Net Consolidated Debt Allowed / Net Current Income	2 times	2.66 times

- 3.5 The following table presents the targets and results for 2002 indicators established in the PAF contract:

Table 4 PAF Compliance		
Ratios	Agreed Targets 2002	Results 2002
Financial Expenses / Net Real Income	Limited to 3.82%	3.48%
Primary Result	R\$ 173 millions	R\$174 millions
Personnel Expenses / Net Current Income	58.98%	56.52%
Minimum increase in Income generated by the State	R\$1.42 millions	R\$1.45 millions
Income from Privatization / Concessions	Not an assigned value	Not measured
Expenses with investments / Net Real Income	Maximum of 5.89%	5.79%

- 3.6 All the targets for the year 2002 were met. The Bank has not yet received the result of the evaluation made for 2003. The information will be available before the analysis mission.

IV. State of Rio Grande Do Sul

A. Fiscal budgetary execution

- 4.1 The State Government achieved Current Surpluses in the last two years, after persistent deficits in the previous three. Nevertheless, these Current Surpluses were not sufficient to provide a Fiscal Surplus because of an increase of Capital Expenses of 59.4% and 12.8% in 2002 and 2003, respectively. There are two main factors that explain the poor performance of the State's finances: i) the high cost in Personnel Expenses, averaging a 55% of Total Income, and ii) Other Current Expenses including transfers to the federal government, municipalities and direct applications, averaging 36% of Total Income. These factors leave little room for Investments and Debt Service obligations.

Table 1 Financial Situation of the State of Rio Grande Do Sul, 1999-2003 (Millions of Current Reales) ¹					
	1999	2000	2001	2002	2003
Current Income	11,793	12,267	12,923	14,067	12,746
Income from Taxes	9,303	9,823	10,558	10,937	9,615
Current Transfers	2,490	2,444	2,365	2,494	2,386
Other Current Income	0	0	0	636	745
Current Expenses	12,817	12,798	13,305	13,753	12,301
Personnel Expenses	7,616	6,957	6,930	8,430	7,496
Current Transfers	702	819	954	301	270
Other Current Expenses	4,499	5,022	5,421	5,022	4,535
Current Surplus / (Deficit)	(1,024)	(531)	(382)	314	445
Capital Expenses	2,595	1,502	1,071	1,707	1,926
Investments and Transfers	2,373	1,210	919	1,707	1,926
Other Capital Expenses	222	292	152	0	0
Capital Income	0	455	180	286	149
Credit Operations	1,780	655	436	170	282
Fiscal Surplus / (Deficit)	(1,839)	(923)	(837)	(937)	(1,050)
Primary Result	(1,059)	(618)	(211)	(79)	(100)

B. Budgetary income and expense projections

- 4.2 In addition to the assumptions indicated in ¶1.3, the projections for Rio Grande do Sul assumed: i) an annual average increase in income and expenses of 6.15% in 2005; and ii) a 4.46% annual average increase in both income and expenses for 2006 to 2013. These rates are meant allow the State both to comply with the limits in the Law of Fiscal Responsibility and to achieve the financial targets established in the 2004 Law of Budgetary Guidelines. These rates are equivalent

¹ Exchange rate to the US dollar: 1999=1.8162, 2000=1.9546, 2001=2.3207, 2002=3.5405, 2003= 2.8884

to the expected real rate of increase of the State's GDP, a proxy variable for rate of growth of taxation. These rates can be considered conservative, given the average annual rate of change of 14.25% experienced in the last five years and are lower than projected inflation in Brazil.

- 4.3 The analysis show deficits for the State of Rio Grande do Sul for the next ten years. Thus, Rio Grande do Sul appears not to have sufficient funds over time to provide local counterpart and to meet debt service obligations for new investments. Line 4 shows that the fiscal result before considering Prodetur is in deficit for the next ten years. Moreover, as shown in line 5, after considering Prodetur, the fiscal deficit increases in each year.

Table 2 Financial Projections for the State of Rio Grande do Sul, 2004 – 2013 (Million of Reales)										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Income	13,688	14,306	14,927	15,588	16,284	17,016	17,817	18,611	19,441	20,309
Current Income	13,208	14,020	14,646	15,299	15,981	16,694	17,439	18,216	19,029	19,878
Capital Income	480	286	281	289	303	322	378	395	412	431
2. Expenses	14,359	14,629	15,281	15,963	16,675	17,419	18,196	19,008	19,855	20,741
Current Expenses	13,209	14,021	14,646	15,299	15,982	16,695	17,439	18,217	19,029	19,878
Capital Expenses	1,150	608	635	664	693	724	757	791	826	863
<i>Investments</i>	577	0	0	0	0	0	0	0	0	0
<i>Amortization</i>	573	608	635	664	693	724	757	791	826	863
3. Result Before Prodetur	-671	-323	-354	-375	-391	-403	-379	-397	-414	-432
4. Prodetur(60mm)	0	4.5	15.5	31	34	27	23	22	21	20
<i>S. Counterpart</i>	0	10.5	19.5	33	33	24	0	0	0	0
<i>F. Counterpart</i>	0	-6	-6	-6	-6	-6	0	0	0	0
<i>Debt Service</i>	0	0	2	4	7	9	23	22	21	20
5. Fiscal Result	-671	-327.5	-369.5	-406	-425	-430	-402	-419	-435	-452

C. Compliance with the Brazilian legislation to contract new debt

- 4.4 The State is in compliance with all the ratios established in the Law of Fiscal Responsibility 101/00, except the ratio of Debt Service / Net Current Income, and the Net Consolidated Debt Allowed / Net current Income. The Resolution of the Federal Senate No. 40/01 waives this limit for the credit operations included in the PAF. However, Rio Grande do Sul has no provision to contract debt for Prodetur, in its PAF of 2001 – 2003 therefore, these limits cannot be waived for this operation. The table below presents the State's compliance with the legal limits established in the Law:

Table 3 Law of Fiscal Responsibility Ratios		
Ratios	Legal Limit	Results 2003
Annual Personnel Expenses / Net Current Income	60.00%	59.32%

Amount of Contracted Debt During the year / Net Current Income	16.00%	2.92%
Debt Service / Net Current Income	11.50%	14.74%
Net Consolidated Debt Allowed / Net Current Income	2 times	2.62 times

- 4.5 The following table presents the targets and results for 2003 indicators established in the PAF contract:

Table 4 PAF Compliance		
Ratios	Agreed Targets 2003	Results 2003
Financial Expenses / Net Real Income	Limited to 3.34%	3.08%
Primary Result	(R\$ 204) millions	R\$207 millions
Personnel Expenses / Net Current Income	67.68%	67.20%
Minimum increase in Income generated by the State	R\$9.249 millions	R\$10.196 millions
Income from Privatization / Concessions	Not an assigned value	R\$131.30 millions
Expenses with investments / Net Real Income	Maximun of 7.91%	8.39%

- 4.6 The Secretaria do Tesoro Nacional made a preliminary evaluation for 2003, resulting in the compliance of all targets, but the Expenses with Investments / Net Real Income ratio. The Bank has not yet received the final result of the evaluation made for 2003. The information will be available before the analysis mission.

V. State of Parana

A. Fiscal budgetary execution

- 5.1 The State's financial situation has made a steady recovery since 2001 showing an increasing Current Surplus, reaching its peak in 2003. This is due to an annual average increase in Current Income of 18.7% while the annual average of Current Expenses only increased at a rate of 16.6%. The main contributor to Current Income is Income from Taxes, which had an increase of 26.1% in 2003, while, Personnel Expenses increased since 2001 at a rate of 16.8%.
- 5.2 The Fiscal results show an increasing surplus for the last two years reaching its peak of R\$571 million in 2003. The Primary Result shows a negative of R\$5,292 in 1999, however, taking out the extraordinary effect of the capitalization of Banco do Estado, the negative result is only R\$292.

Table 1 Financial Situation of the State of Paraná 1999-2003 (Millions of Current Reales) ¹					
	1999	2000	2001	2002	2003
Current Income	5,312	6,496	8,489	9,324	10,454
Income from Taxes	4,122	4,884	6,773	5,856	7,383
Current Transfers	1,190	1,612	1,716	2,293	2,344
Other Current Income	0	0	0	1,175	727
Current Expenses	5,128	7,251	7,899	8,360	9,212
Personnel Expenses	3,503	2,995	3,605	4,122	4,770
Current Transfers	279	474	481	539	644
Other Current Expenses	1,346	3,782	3,813	3,699	3,798
Current Surplus	184	(755)	590	964	1,242
Capital Expenses	6,090	2,501	1,093	1,275	1,022
Investments and Transfers	6,090	2,501	1,093	1,275	1,022
Other Capital Expenses	0	0	0	0	0
Capital Income	114	3,400	239	374	189
Credit Operations	5,424	275	184	240	162
Fiscal Surplus / Deficit	(368)	419	(80)	303	571
Primary Result	(5,292)	2,478	563	301	268

B. Budgetary income and expense projections

- 5.4 Besides the assumptions indicated in ¶1.3, the projections for the State of Parana assumed: i) an annual average increase in income and expenses of 6.% for 2005; and ii) a 4.5% annual average increase in both income and expenses for 2006 to 2013. These rates are meant to allow the State both to comply with the limits in

¹ Exchange rate to the US dolar: 1999=1.8162, 2000=1.9546, 2001=2.3207, 2002=3.5405, 2003= 2.8884

the Law of Fiscal Responsibility and to achieve the financial targets established in the 2004 Law of Budgetary Guidelines. These rates are equivalent to the expected real rate of increase of the State's GDP, a proxy variable for rate of growth of taxation. The rates can be considered conservative, given the average annual rate of change of more than 18.7% in income between 1999 and 2003.

- 5.5 The analysis shows that Parana will have sufficient funds over time to meet the debt service obligations of the requested US\$60 million loan specified in its PAF, as well as to provide local counterpart of US\$40 million. Line 5 shows that after considering Prodetur, there is still some room for additional financing and local counterpart. In order to calculate the maximum capacity to undertake debt and provide local counterpart, a sensitivity analysis was made. Additional debt, debt service, and local counterpart were added in line 6 until the fiscal result became zero or close to zero. After an additional US\$31 million, the fiscal result for the year 2008 became R\$0. Therefore, the maximum borrowing capacity for Parana would be US\$91 million. This assumes that other investment Programs included in the PAF would not be undertaken.

Table 2 Financial Projections for the State of Parana, 2004 – 2013 (Million of Reales)										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Income	11,695	12,175	12,914	13,499	14,105	14,735	15,378	16,070	16,793	17,549
Current Income	11,300	11,978	12,697	13,269	13,866	14,489	15,141	15,822	16,534	17,278
Capital Income	395	197	217	230	239	246	237	248	259	271
2. Expenses	11,308	12,118	12,844	13,423	14,027	14,657	15,317	16,006	16,726	17,480
Current Expenses	10,098	10,704	11,346	11,857	12,391	12,948	13,531	14,140	14,776	15,441
Capital Expenses	1,210	1,414	1,498	1,566	1,636	1,709	1,786	1,866	1,950	2,039
<i>Investments</i>	570	735	779	814	851	889	929	971	1,014	1,060
<i>Amortization</i>	640	679	719	752	785	820	857	895	936	979
3. Result Before Prodetur	387	57	70	76	78	78	61	64	67	69
4. Prodetur(60mm)	0	4.5	15.5	31	34	27	23	22	21	20
<i>S. Counterpart</i>	0	10.5	19.5	33	33	24	0	0	0	0
<i>F. Counterpart</i>	0	-6	-6	-6	-6	-6	0	0	0	0
<i>Debt Service</i>	0	0	2	4	7	9	23	22	21	20
5. Result After Prodetur	387	52.5	54.5	45	44	51	38	42	46	49
6. Prodetur(+31mm)	0	6	20	40	44	35	30	29	27	26
7. Fiscal Result	387	46.5	34.5	5	0	16	8	13	19	23

C. Compliance with the Brazilian legislation to contract new debt

- 5.6 The State is in compliance with all the ratios established in the Law of Fiscal Responsibility 101/00, except the ratio of Debt Service / Net Current Income. However, the Resolution of the Federal Senate No 40/01 waives this limit for the credit operations that are included in the PAF. In the Fiscal Adjustment Program there is a provision to contract debt for Parana for this operation; therefore, this

limits have been waived for Prodetur/Sul. The table below presents the State's compliance with the legal limits established in the Law:

Table 3 Law of Fiscal Responsibility Ratios		
Ratios	Legal Limit	Results 2003
Annual Personnel Expenses / Net Current Income	60.00%	57.00%
Amount of Contracted Debt During the year / Net Current Income	16.00%	1.94%
Debt Service / Net Current Income	11.50%	14.21%
Net Consolidated Debt Allowed / Net Current Income	2 times	1.44 times

- 5.7 The following table presents the targets and results for 2002 indicators established in the PAF contract:

Table 4 PAF Compliance		
Ratios	Agreed Targets 2002	Results 2002
Financial Expenses / Net Real Income	Limited to 1.67%	1.55%
Primary Result	R\$ 156 millions	R\$301 millions
Personnel Expenses / Net Current Income	66.9%	61.52%
Minimum increase in Income generated by the State	R\$5.292 millions	R\$5.716 millions
Investment in State Reform	R\$3.000 millions	R\$4.000 millions
Expenses with investments / Net Real Income	Maximum of 9.39%	10.73%

- 5.8 All the targets for the year 2002 were accomplished, except the Expenses with Investments / Net Real Income ratio. Nevertheless, for 2003 we estimate that the State will comply with the ratio because of an increase in Net Real Income. Parana is negotiating a new PAF agreement with the Secretaria do Tesoro Nacional. The agreement will allow Parana to be considered for the Prodetur loan. The Bank has not yet received the result of the evaluation made for 2003. The information will be available before the analysis mission.

VI. Glossary

Law of Fiscal Responsibility (nº. 101/00) = Establishes public finance rules enforcing responsibility in fiscal management, and allows the Federal Government to take over, consolidate and refinance State Government debts. According to the law, responsibility in fiscal management presupposes well-planned and transparent actions to prevent risks and correct deviations that may affect the equilibrium of public accounts, by compliance with revenue and expenditure results targets, observing limits and satisfying conditions regarding tax breaks, personnel and social security expenditures, among others, consolidated and security debt, credit operations, including those involving revenue anticipation, guarantees issued and outstanding liabilities. The principal target and limits of the law are: Personnel Expenses / Net Current Income $\leq 60\%$; Contracted Debt / Net Current Income $\leq 16\%$; Debt Service / Net Current Income (%) $\leq 11.5\%$; and Net Consolidated Debt Allowed / Net Current Income ≤ 2 times.

Program of Fiscal Adjustment PAF = The implementation's Law nº 9496/97 implied the creation of the Program of Fiscal Adjustment (PAF) by the Federal Government. The PAF is being executed by a contract signed by the Governors of the States with the Federal Government. The contract is an integrant part of the consolidation and renegotiation of the States debt, and contributes to the States Government debt stock reduction by consolidating and refinancing State debts and compelling the State to comply with annual financial targets and goals for the next three years. Every year the fulfillment of the goals and commitments of the previous exercise must be evaluated and updated for the next three years. These procedures will be observed for the contract period. The contract has targets and limits variable per State and the principal indicators are: Financial Expenses / Net Real Income (%); Primary Result (millions of R\$); Personnel Expenses / Net Current Income (%); State – Generated Income (millions of R\$); and Investment Expenses / Net Real Income (%).

Primary Result = Is the income collected (IC) minus the financial income (FI), credit operations (CO) and sale of assets (SA). From this result, the net expenses (NE) and accruals (AC) must be deducted, except for the debt service (DS) which includes interest, amortization of internal and external debt.

$$\text{Primary Result} = \text{IC} - (\text{FI} + \text{OC} + \text{SA}) - (\text{NE} + \text{AC} - \text{DS})$$