

## PROFILE I

### BRAZIL

May 2, 2002

<b>Project name:</b>	Tourism Development Program for the South of Brazil – (PRODETUR/SUL).		
<b>Project number:</b>	BR-0318		
<b>Project team:</b>	Leader: A. H. Darling (EN1); M. C. Perazza and H. de Oliveira (EN1); J. Brakarz, (SOC); M. Dourojeanni and José Navia (COF/CBR).		
<b>Borrower:</b>	Banco do Brasil (BB)		
<b>Executing agency:</b>	BB		
<b>Financing plan:</b>	IDB:	US\$	200 million
	Local:	US\$	<u>200 million</u>
	Total:	US\$	400 million
<b>Tentative dates:</b>	Profile I	Second quarter, 2002	
	Profile II	Second quarter, 2002	
	Loan Committee	Fourth quarter, 2002	
	Board of Directors	Fourth quarter, 2002	

## I. FRAME OF REFERENCE

### A. Background

- 1.1 Brazil has had a large and growing deficit in the current account of its Balance of Payment since 1995. The deficit in 2002 was US\$ 23.2 billion, more than 4% of GDP. The travel account of the Balance of Payments was also negative US\$ 1.5 billion. The Government of Brazil believes that it can make the travel account a contributor of foreign exchange, and is making a substantial effort to increase tourism. The IDB has been supporting these efforts by financing tourism projects in the Northeast and the Amazon. Brazil is now turning its attention to the South, which has one of Brazil's most visited attraction, Iguazu Falls, and the Pantanal, an area expected to capitalize on the growing importance of ecotourism.
- 1.2 The States of Rio Grande do Sul, Paraná, Santa Catarina and Mato Grosso do Sul comprise the South of the Brazil.<sup>1</sup> In 1998, more than 1.8 million foreign tourists entered the country through the Southern border points, 89% by land. The four Southern states accounted for 38% of all foreign tourists. Eighty-seven per cent of these foreign visitors were from South American countries and principally

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<sup>1</sup> Mato Grosso is actually considered part of the Central West Region, but it is included because it is a member of CODESUL, the Corporation for the Development of the South.

from Argentina. National tourism to the South was more than three and one half times greater than international tourism and accounted for 6.5 million visitors.

- 1.3 The tourist trade in the South presently is in a period of stagnation and decline. The principal foreign market, Argentina, is in crisis, and the recent devaluation will not only reduce the number of visitors, but it will also make Argentina more attractive to Brazilian residents. In addition, over the years the environmental quality of some of the South's important destinations has declined. The States are developing a strategy to reactivate these destinations, diversify markets, and address environmental issues. However, the diversification of markets will be made more difficult by Brazil's policy of reciprocity, which requires that the citizens of countries that require Brazilians to obtain visas similarly have to obtain visas to visit Brazil. Obtaining a visa for Brazil is a tedious process. It requires providing a photograph, a photocopy of a round trip ticket, two trips to the consulate and a \$45 fee (\$55 if done by mail). The effort required discourages tourism from markets such as the U.S., Canada and Japan.

## **B. Lessons learned**

- 1.4 The Bank has learned a number of lessons from financing several tourism operations in Brazil. First, PRODETUR/NE I demonstrated that tourism development can bring employment and other benefits to the local population. Second, it also made clear that careful planning and sequencing of investments is needed to achieve strategic goals and to minimize negative environmental impacts associated with tourism growth and immigration inflows. The Bank now makes sure that areas that participate in Bank projects have a strategic plan that results in an integrated and balanced set of actions and investments.
- 1.5 A third lesson is that tourism projects 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. A fourth lesson is that tourism development programs need an execution scheme that responds to the cross-sectoral nature of tourism development. Projects need to be planned, evaluated and executed by experts in tourism planning, socio-environmental and institutional analysis, economics and finance.

## **II. BANK STRATEGY AND PARTICIPATION**

- 2.1 The Bank's country strategy for Brazil establishes four priorities. First, the Bank should foster and deepen reform and modernization of the State at all levels. Second, it should support efforts to make Brazilian products more competitive and to improve their access to markets. It should help modernize the economy by strengthening the financial system, supporting microenterprise and the small and mid-sized business sector, rehabilitating basic infrastructure, promoting integration, and developing tourism. Third, it should support efforts to reduce social inequities. It should build partnerships with community and civil society.

Fourth, it should address environmental management and natural resource problems with an emphasis on protecting fragile ecosystems.

- 2.2 The proposed Program is consistent with the Bank's strategy. Not only is tourism development a specific priority of the country strategy, but the tourism development proposed is consistent with all pillars of the strategy. It will support government efforts to reduce social inequities and poverty by generating employment and increasing incomes. It will provide transportation and sanitation infrastructure that will benefit local populations. It will increase the capacity of municipal governments to regulate and financially manage public services that benefit both the tourist and host populations. Finally, it will improve land use policies that benefit the environment and sustainable use of natural assets.

### **III. PROGRAM OBJECTIVES AND DESCRIPTION**

- 3.1 The Goals of PRODETUR/SUL are to increase income from tourism for the benefit of the local communities, to improve the availability and quality of municipal services (both urban and non-urban) to the resident population, and to contribute positively to the Travel Account of the Balance of Payments. The Purpose of the Program is to increase tourist's expenditure in the South.
- 3.2 The Program's initial priority is to improve tourist areas that already have significant tourism activity. These areas include Iguazu Falls in Paraná, the coastline of Santa Catarina, the Serra Gaúcha in Rio Grande do Sul, and Bonito-Bodoquena in Mato Grosso do Sul. The projects will begin with stakeholder consultation, planning activities, environmental recovery and protection and strengthening municipal management of tourism flows. These actions will ensure that the permanent population benefits from sustainable tourism flows.
- 3.3 The Program will emphasize strategic planning that focuses each state on investments and actions necessary to attract new markets and reactivate demand from existing ones. The Program will also emphasize the establishment of regional planning to define priorities and coordinate the development of tourism activities and the improvement of municipal capacity to manage tourism flows and capture a part of the revenue to benefit the permanent population. The investments will go to municipalities selected on the basis of private investor's interest and the municipalities' willingness and commitment to develop the capacity to manage tourism investments in benefit of the resident population. Municipal commitment to, and involvement with, the Program is critical to its success, and this Program will include mechanisms for effective involvement of all stakeholders.
- 3.4 The borrower and executor will be the Banco do Brasil, which will act as the Program's financial intermediary and executing agent. The Banco do Brasil has been an efficient executor of a previous Bank project, PROSEGE, and it will be supported in the technical coordination of the Program by the Ministry of Sports and Tourism, which will establish a special coordination unit to analyze and

approve regional tourism studies and other activities pertaining to either the MET or other federal agencies' responsibilities. The states will be the sub-borrowers.

#### **IV. ISSUES**

- 4.1 The financial capacity of the states in the South to take on debt and provide counterpart varies significantly. The Project Team has started to analyze each state's financial capacity and will monitor their financial situation closely during preparation. The results of this analysis could affect the size of the operation.
- 4.2 The recent changes in exchange rate in Argentina could have a significant impact on demand for destinations in the South. This must be analyzed and could effect the proposed size of the Program.
- 4.3 The larger and financially sound municipalities of the South are potential sub-borrowers and could share with the States the responsibility to provide counterpart and repay loans. There is a risk that permitting them to do so would discourage the integrated, strategic planning so important to tourism development. During project preparation, the Project Team will consider the advantages and risks of allowing financially sound municipalities to be sub-borrowers.
- 4.4 The Government of Brazil has requested that the Bank consider private counterpart in lieu of Government counterpart. This could be appropriate when the private sector finances activities usually undertaken by the public sector. Such works might include investments in solid waste, sanitation, and airport facilities. The Project Team will provide a list of items that might be eligible in the Profile II and solicit guidance on the acceptability of these items and the percentage of counterpart that could be private.

#### **V. PROGRAM PREPARATION AND ACTION PLAN**

- 5.1 All the states of the Program have held public workshops to analyze problems in tourism development and to identify possible solutions. The Bank is reviewing their development plans and contracting consultants to review the strategies to diversify existing markets, to prepare municipal tourism management programs, to assist in the review of the socio-environmental analysis. The Field Office is helping structure the participation of civil society.
- 5.2 The Project Team expects to receive and review the tourism plans of at least three states by the end of June. The Orientation Mission is programmed for June and Board presentation could be in the last quarter of 2002, provided the adequate implementation of the agreed work plan.