



Social Entrepreneurship Program

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Inquiries to: Mr. Fernando Campero (extension 1512)

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On **21 November 2006**, the date on which the five-day circulation period required for this document expires, the President, or such officer as he may designate, will approve this operation.

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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

GUATEMALA
SOCIAL ENTREPRENEURSHIP PROGRAM

**PROMOTION OF LOCAL MICRO AND SMALL ENTERPRISE
ECOTOURISM SERVICE PROVIDERS IN THE CARIBBEAN REGION**

(GU-S1010)

LOAN AND TECHNICAL COOPERATION PROPOSAL

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I. BASIC PROJECT INFORMATION

A. Executing agency

- 1.1 Fundación para el Eco-Desarrollo y la Conservación [Foundation for Ecodevelopment and Conservation] (FUNDAECO)

B. Amount and source (US\$)

	IDB	FUNDAECO	Total
Reimbursable loan	350,000	55,000	405,000
Nonreimbursable technical cooperation	105,000	155,000	260,000
Total	455,000	210,000	665,000

Source: The funds from the Inter-American Development Bank (IDB) will be drawn on the net income of the Fund for Special Operations (FSO).

C. Terms and conditions of the reimbursable loan

Amortization period:	10 years
Grace period (principal):	5 years
Interest rate:	4% per annum
Currency:	United States dollars

- 1.2 The reimbursable loan and technical-cooperation funds contributed by the Bank will be executed over a period of up to 42 months and disbursed over a period of up to 48 months. The grace period applies solely to the payment of principal, not to interest.

D. Statement of no objection

- 1.3 Official letter 0-DVFP-7-558-06 of the Ministry of Public Finance, dated 7 September 2006, states the Guatemalan government's no objection to financing of the project.

E. General problems in the sector, context, and opportunities

- 1.4 **Poverty in Guatemala's Caribbean region.** An estimated 60% of the approximately 11.2 million Guatemalans live in rural areas, where 72% of the population is poor. Several rural communities in the country's Caribbean region have economic and social development indicators below the national average. In these communities, the low-income population consists mainly of families whose income derives from traditional farming activities on marginal land ill-suited to agriculture.

- 1.5 The department of Izabal on the Caribbean coast is home to q'eqchi' and ladino communities—classified as poor or extremely poor—with family incomes of less than US\$300 per month. Their subsistence economy leaves little surplus to generate monetary income. Given their production methods, these communities have little opportunity to participate in dynamic markets that could help them climb out of poverty.
- 1.6 **Opportunity to access dynamic markets.** Some of these communities are located in areas of rich biodiversity and scenic beauty with considerable tourism potential, as attested by the construction of the Santo Tomás de Castilla port terminal, which has substantially increased the flow of visitors to the region. In three seasons of operation, roughly 30,000 visitors have come to the area on cruise ships each year, as well as some 30,000 conventional tourists.
- 1.7 The increase in the flow of tourists to the Caribbean region is in line with the growth of tourism to Guatemala seen over the last decade and with international ecotourism trends, which have generated high demand for sites and products with a focus on nature, adventure, and living with the locals. The influx of visitors should continue to be robust in the future, based on the increase in the number of cruise ships expected in the coming seasons. In the next two years alone, increases of more than 100% over the 2005-2006 season are expected.¹ The local supply of ecotourism sites has not been able to meet the demand created by these visitors, since the area does not yet have the sufficient infrastructure or tourism services.
- 1.8 Within 50 kilometers of the port terminal lie a number of important protected areas featuring natural sites of great beauty and ecological wealth representing some of the chief local attractions for the area's tourism market. These protected areas afford an opportunity to promote ecotourism-related economic activity with the active participation of the local communities, by promoting micro and small enterprises (MSEs) that can help these communities become a part of the tourism routes and participate in the rigorous growth of the region's budding tourism market.
- 1.9 Over the last 15 years, the Fundación para el Eco-Desarrollo y la Conservación (FUNDAECO) has been working with local communities in Izabal to protect and manage the natural resources of the protected areas, identifying ecotourism and rural community tourism sites and products as local development alternatives. FUNDAECO purchases land in protected areas and arranges for an "environmental easement," and manages these protected areas as land-use planning tools for the conservation of biodiversity, the fight against poverty, and sustainable productive development. In these areas, it seeks to involve the local communities in participatory processes to manage natural resources, promoting income-generating productive activities that are compatible with the goals of environmental protection.

¹ For the 2003, 2004, and 2005 seasons, the number of cruise ships rose from 6 to 19 to 27, respectively. For 2006 and 2007, 57 and 80 ships have been preconfirmed, respectively. Each ship carries about 1,000 passengers, 50% of whom disembark. Each passenger spends an estimated US\$20 to US\$105 at every stop.

- FUNDAECO's mission in the communities integrates community development with environmental protection, given the risk that the agricultural frontier will advance in Izabal.
- 1.10 These participatory processes are the basis of the long-term empowerment of the local communities, which have organized within the protected areas: they are members of the Intercommunity Forum (FIC) promoted by FUNDAECO or community development committees (COCODE), where they consider decisions and actions for improving land management and their living conditions. The communities where the integration process is most advanced are Las Escobas, Santo Tomás, Rosario, and Nueva Esperanza, close to which are five high-value sites for tourism development: Las Torres, Ensenada Verde, a site near Puerto Castilla, Las Escobas, and Montaña Chiclera. The last two of these already receive visitors.
 - 1.11 **Challenges.** In order to capitalize on ecotourism market opportunities, the local communities face the following challenges: (i) The **sites lack infrastructure** to provide tourism services up to the standards demanded by tour operators. Such infrastructure would make it possible to enhance the services offered to tourists, attract more visitors to the sites, and stimulate business for local community MSEs; (ii) **Lack of adequate financing to supply the investment and working capital that MSEs need.** Owing to their socioeconomic profile, these communities are not considered an attractive market for local banks, and so lack access to credit to start up or strengthen their businesses; (iii) **Lack of technical skills and capabilities for providing quality services.** The local MSEs in many cases have not yet been created or lack: (a) the skills and know-how to ensure the suitability and quality of their tourism services; (b) the management ability to operate their businesses with acceptable quality and efficiency; (c) the organizational capacity to offer services jointly with other businesses; and (d) ecological know-how that adds value and protects the environment; and (iv) **Lack of means to promote the sites and establish business agreements** with larger tourism operators and companies to ensure the flow of tourists to the community sites and products.
 - 1.12 **Project strategy.** The project seeks to address these challenges and create the conditions for local MSEs and communities to develop tourism-related businesses at five sites managed by FUNDAECO. These sites, selected for their ecotourism potential, will be developed with environmentally friendly infrastructure and outfitted for MSEs to operate tourism businesses. The project will make it possible to: (i) invest in tourism service infrastructure at five ecological sites, to attract a greater flow of tourists and make it easier for local MSEs to develop businesses aimed at this market segment; (ii) improve access to lending services for individual MSEs and associative groups in the communities by establishing a lending program; (iii) enhance the know-how and capabilities of local tourist service MSEs in business management and tourism service techniques through specialized technical assistance and training; (iv) strengthen the executing agency's capacity to promote the ecotourism sites and provide business technical support services to the MSEs; and (v) empower local communities through ecotourism development.

- 1.13 **Beneficiaries.** The direct beneficiaries will be some 170 individuals belonging to both the q'eqchi' (60% of the total) and ladino ethnic communities, classified as poor or extremely poor, who (co-)own existing individual or associative MSEs or new ones to be started up during the life of the project. The beneficiary communities will be Las Escobas, Santo Tomás, Rosario, Guardianía, and Nueva Esperanza, although others with similar characteristics in the vicinity of the priority sites may be included as well.

II. THE PROJECT

A. Objectives

- 2.1 The project goal is to help improve the socioeconomic condition of families in low-income campesino communities around ecotourism sites in protected areas on Guatemala's Caribbean coast. The purpose is to facilitate the development of local MSEs that sell goods and services to tourists in a set of ecotourism sites outfitted with tourist service infrastructure.

B. Description

- 2.2 The project will have two components: a US\$405,000 loan (IDB: US\$350,000 reimbursable; FUNDAECO: US\$55,000) and US\$260,000 in technical-cooperation funds (IDB: US\$105,000 nonreimbursable; FUNDAECO: US\$155,000). The two are to be approved simultaneously and executed by FUNDAECO.
- 2.3 The **loan component** will finance: (i) infrastructure investments to outfit ecological sites for tourist services; and (ii) a lending program aimed at local MSEs that sell goods and services to tourists.
- 2.4 *Investments in supporting infrastructure for tourism services:* US\$175,000 will be used to finance infrastructure and equipment upgrades to develop and add value to five priority ecological sites with tourism appeal. The aim of these investments is to make it easier for local MSEs to develop businesses that cater to tourists. The infrastructure improvements will enhance the sites' appeal, enable them to support a larger flow of tourists, and set the stage for MSEs to start up profitable businesses targeting this market. Before the infrastructure is developed, daily visitor limits will be set in each case to respect the carrying capacity of the sites. The investments will be based on the needs and specific characteristics of each site, and include multiple-stall restrooms; parking lots for buses and taxis; welcome areas and visitor centers; new ecological trails; a serpentarium; scenic overlooks, a bridge, and scenic overlook bridges; a facility for storing kayaks and equipment for water activities; a small swimming pool with a perimeter deck and changing rooms; cafeteria/bars; craft/souvenir shops; etc.
- 2.5 The commercial infrastructure built with these resources will be used by the MSEs and neighboring communities of the sites under a concession and operating license system governed by License and Concession Rules for Provision of Tourism Services ("Concession Rules") approved by the executing agency's board of directors after study and consultation with the participating communities through

- their representative bodies (community development committees and/or Intercommunity Forum), so as to foster community participation in determining the mechanisms for capturing project benefits. These rules will include at least: (i) a description of the buildings and their intended use; (ii) rules on visitors and occupancy; (iii) rules on economic activities at the sites, including environmental considerations; (iv) regulation of business concessions and services in general; and (v) the rights, obligations and costs associated with the concessions and licenses, and the mechanisms for implementing them.
- 2.6 FUNDAECO owns the sites where the investments will be made. It will charge an “entrance fee” of about US\$3 to US\$10 per visitor, depending on the site.² These fees will generate revenues from which FUNDAECO will: (i) repay the loan to the Bank; and (ii) make “direct contributions” of 6% to 10% to the participating communities, under rules approved by its board of directors.³ To facilitate repayment of the loan to the Bank, FUNDAECO will regularly deposit a portion of its revenues into a reserve account until it has accrued the funds to pay an installment of principal and interest.
- 2.7 *Lending program for ecotourism MSEs:* US\$230,000 will be used to meet the credit needs of low-income microentrepreneurs and associative groups in the local communities for working and investment capital. Access to credit will enable MSEs to purchase equipment and obtain working capital to set up and/or strengthen their businesses at the ecological sites and in nearby areas visited by tourists. The businesses operated by the MSEs will include: food vending, shops (souvenirs, crafts, etc.), solid waste management, equipment rental for sporting, recreational, and/or ecotourism activities (kayaks, bicycles, sport fishing gear, hiking, etc.); and other services (first aid kits for guides, etc). The loan amounts will range up to US\$3,000 for individual MSEs, and up to US\$10,000 for associative MSEs, although the average loans are expected to be smaller, with a maximum term of 36 months and interest rates similar to those of the local market. Some 50 MSEs will be financed, of which 30 will be individual microenterprises and 20 will be associative MSEs. Because the sites have not yet been developed, the demand for credit has been estimated based on potential businesses, the cost of inputs for those businesses, and the potential number of MSEs with borrowing capacity. FUNDAECO has pre-identified 28 MSEs (100 individuals) for the startup phase that are already participating in organization and training processes, creating favorable conditions for their participation in the project.

² FUNDAECO currently charges entrance fees at Las Escobas.

³ Currently, at the end of each year, FUNDAECO contributes 6% of revenues to the neighboring communities of revenue-generating sites. The communities, through their community development committees, present a proposal for use of funds, which is decided on by consensus. FUNDAECO analyzes and approves the proposal, and makes out a check to the order of the community development committee, which receives and applies the funds. The mechanism is based on three criteria: the use of funds (i) is decided on as a community; (ii) benefits the community; and (iii) must be in line with the management criteria for protected areas.

- 2.8 Given that FUNDAECO does not provide credit services, the management of the lending program will be turned over to a specialized financial institution (SFI), with which FUNDAECO, as project executing agency and the Bank's borrower, will sign a portfolio management agreement establishing that these funds will be managed under a delegated credit portfolio origination and management regime (guidelines for this process are available in the project technical files). FUNDAECO will assume the credit risk and will be responsible for repaying these funds to the Bank. The SFI will be selected by FUNDAECO with the Bank's no objection on the basis of previously agreed eligibility criteria, to include: (i) methodology and demonstrated track record in microcredit management; (ii) ability to extend its services into the project target area; (iii) work methods; (iv) administrative and operating capacity; and (v) sound financial performance in terms of solvency, asset quality, efficiency, and volume of operations, among other indicators. The lending program will be governed by Credit Regulations, which, like the portfolio management agreement, must be approved by FUNDAECO's board of directors, to the Bank's satisfaction, as a condition precedent to the disbursement of lending program funds (see the project technical files). The Bank's Legal Department will review the draft portfolio administration agreement submitted by FUNDAECO, prior to the Bank issuing its no objection. FUNDAECO has already begun the process of evaluating SFIs, having thus far received expressions of interest from two SFIs active in the area and with experience lending to rural MSEs. To allocate the lending resources, FUNDAECO will conduct a technical analysis of potential borrower MSEs and forward the candidate or list of candidates to the SFI, which will evaluate them and make the final decision as to extending credit. Surpluses under the lending program will be capitalized.
- 2.9 The **technical-cooperation component** seeks to strengthen both the executing agency and the communities by developing specific tourism-related skills. It will finance consulting and training services to: (i) facilitate the outfitting and development of the five sites where the project will be implemented; (ii) support marketing of the sites and the MSEs' products; (iii) build microenterprise businesses with local participation that meet market requirements, and help MSEs to build capacity in business and environmental management and management of ecotourism products; and (iv) strengthen FUNDAECO's capacity to deliver business support services to MSEs by enhancing the technical skills of community field workers. Marketing and business promotion activities will help to develop a strategy for positioning the sites in the marketplace and increasing the flow of tourists to them. The activities include preparation of a site promotion and marketing plan and promotional materials and tools aimed at tourists as well as operators and those responsible for sales for the various cruise lines. Promotional tours to the sites will be organized for the cruise line representatives, to conclude specific promotion and business agreements. The technical-cooperation component also calls for studies to determine the environmental impact of the planned investments and activities, which will yield indicators to facilitate monitoring of the carrying capacity of the sites. This component will also support project execution,

monitoring, and evaluation. The work plan describes the technical-cooperation component in greater detail (see the project technical files).

C. Expected outcomes and capture of benefits

- 2.10 The following outcomes are expected by project end: (i) five sites will be developed for sustainable ecotourism with tourist service infrastructure, serving as anchors for the participation of local microenterprises; (ii) some 50 individual and associative local MSEs will participate and be strengthened, profitably selling goods and services to tourists in the region; (iii) monetary income will increase for approximately 170 individuals directly involved with the MSEs and the rural communities near protected areas, in addition to some 50 microentrepreneurs who will benefit indirectly (tour guides, taxi drivers, etc.); (iv) at least six business agreements will be reached with cruise line and hotel operators for direct sale of the sites and services offered through the project; and (v) a local certification system, designed and promoted by FUNDAECO, will be established and extended to all project beneficiaries who provide tourism services within protected areas.
- 2.11 The project will yield benefits for: (i) **local MSEs**, composed of low-income individuals, whose economic activity will increase through: (a) better access to tourism markets and to business opportunities organized around the five ecotourism sites promoted by the project; (b) access to credit, training, and technical assistance services and, hence, to the means to better manage their businesses and raise product quality, as well as increase their volume of business; and (c) revenue increases of about 75% through higher sales. By the end of the project, at least 60% of the supported MSEs should have self-management capacity and continue under the site operation concession/licensing system managed by FUNDAECO. (ii) **FUNDAECO**: (a) whose mission of environmental promotion and sustainable development of the protected areas it has established will be facilitated, as nearby communities become involved in economic activities compatible with ecological conservation; and (b) whose revenue-generating capacity will improve as a result of the enhanced tourism appeal of the sites (charging tourists higher entrance fees), thus making its institutional and environmental promotion activities more sustainable. (iii) **low-income rural communities**, which will benefit from: (a) the creation of new jobs and income opportunities through the microentrepreneurial activities of their members; and (b) direct transfers of money from FUNDAECO for investment in projects to benefit the community.

D. Project sustainability and findings of the financial analysis

- 2.12 The project's **sustainability** has to do with: (i) **The ecotourism market**: The growth prospects for demand for ecotourism sites and services are encouraging, forming part of a trend seen both nationwide and in the Caribbean region, driven by the arrival of a growing number of cruise ships to Puerto Castilla, but also by the growing interest in ecotourism. This trend will be reinforced through promotion and marketing activities, and through concrete agreements with operators and companies, which the project will promote in order to ensure the flow of tourists to the sites. Demand is therefore expected to remain strong in the future, allowing one

to predict that FUNDAECO's services will continue to be relevant to local MSEs in the long term, helping them to access higher-value markets and thus enhance their income. (ii) **The revenue outlook for the MSEs and ecotourism sites:** The projected flows show positive effects on revenues, both for MSEs and for the sites, suggesting that if market trends continue, providing tourism services will be a sustainable activity for MSEs into the future. (iii) **Sustainable services for local MSEs and communities:** Charging entrance fees to the sites will enable FUNDAECO to raise revenues to continue the marketing and technical assistance services provided to the MSEs, and to strengthen its financial sustainability. The lending program, for its part, will capitalize surpluses so they can be used for new loans. It is also likely that with the ecotourism development of the sites, the strengthening of the MSEs, and the experience gained from the lending program, the region's microlenders will begin lending their own resources to the MSEs. (iv) **Environmental management:** The project design and the focus of the executing agency will ensure that ecologically friendly environmental criteria are applied, sustaining the activity to be promoted.

- 2.13 **Findings of the financial analysis.** The financial analysis of FUNDAECO suggests that the amounts committed for this loan are near its debt-carrying capacity. Nevertheless, FUNDAECO will be able to assume its obligation with the Bank under the proposed terms and conditions and implement the project, because the projected flows show significant positive effects on its cash flow in the different scenarios of the sensitivity analysis (see the project technical files). Its liabilities (US\$1 million) have been declining in relation to its equity (US\$561,000) as of December 2005, although they still represented 1.8 times its net worth. While a sizeable percentage of FUNDAECO's assets (51%) are committed to "ecological reserves" (land) in which it has been investing, the entity has some liquid long-term investments (of about US\$180,000) that it could draw upon, if necessary, to meet its obligations. One of FUNDAECO's creditors has reportedly decided to forgive a loan of about US\$180,000 made to purchase land, which benefits its asset position. Furthermore, the competitive financial terms of the loan component will enable FUNDAECO to generate surpluses to honor the financial obligations with the Bank and capitalize surpluses.

E. Bank strategy

- 2.14 Objectives of the Bank's Country Strategy with Guatemala for 2004-2007 (document GN-2355-1) include to reduce poverty and improve the conditions for efficient production and incorporate excluded sectors into the productive process. The project is consistent with this strategy, inasmuch as it fosters the incorporation of MSEs and rural low-income communities into the dynamic economic circuit of tourism in the Caribbean region. It will impact development of the tourism sector by generating ecotourism products with community participation. Tourism development is one of six pillars of the national competitiveness program.

F. Cooperation projects of the Bank and other development agencies

- 2.15 This project will be complemented by two projects executed by FUNDAECO that support the management of protected areas in the Caribbean Region: (i) “Environmental Justice for Nature Conservation,” financed by the Netherlands Cooperation Program in Guatemala, and (ii) “Integrated Management of the Protected Areas of the Caribbean,” financed by the French Fund for the Global Environment, set to conclude in 2010 and 2008, respectively. FUNDAECO will use these resources to finance part of its local counterpart contribution for the project and to make technical and administrative support resources available in each of the protected areas where the priority sites are located.⁴ The project will also be complemented by the MIF’s technical-cooperation program for sustainable tourism certification (ATN/ME-9714-GU), from which it will draw lessons learned with regard to increasing business competitiveness and MSE access to the tourism market, integrating them into certified tourism circuits, and the “green seal” sustainable tourism certification program for the Verapaces-Petén-Izabal circuit. FUNDAECO will also explore potential partnerships with CAMTUR, which is executing the technical-cooperation program for competitive development of cultural tourism in indigenous communities (GU-M1005).

G. Summary of environmental and social review

- 2.16 The Committee on Environment and Social Impact (CESI) reviewed this operation at its meeting of 28 June and required no environmental assessment. It raised two concerns, which have been addressed in the project design and are referred to in the CESI transmission memo (see the project technical files): (i) *Mitigation of potential environmental impacts*: The investments to be made will comply with Guatemala’s environmental standards. Technical-cooperation funds will be used to commission studies to estimate the environmental impact of the economic activities and infrastructure to be financed, such that there will be an environmental assessment for each of the sites. FUNDAECO will submit evidence that the Departmental Office of the Ministry of Environment and Natural Resources has approved the environmental assessment prior to the disbursement of resources for the planned investments (paragraph 2.19); and (ii) *Social impacts and consultations*: The project will foster a participatory analysis of the environmental impact of investments and tourism activities together with the local communities, through their representative bodies (paragraph 2.17).

H. Special conditions

- 2.17 As a condition precedent to the first disbursement of both components, FUNDAECO will submit, to the Bank’s satisfaction, the Concession Rules, approved by its board of directors after consultation with the local communities.
- 2.18 As a condition precedent to the first disbursement of the technical-cooperation resources, FUNDAECO will submit evidence that it has appointed a project

⁴ FUNDAECO will remain responsible for the counterpart contribution even if it loses these funding sources.

- coordinator. As a condition precedent to the disbursement of more than 20% of the technical-cooperation resources, it will submit evidence, to the Bank's satisfaction, submit evidence that it has approved the project baseline study (paragraph 2.21). For the disbursement of more than 40% of the technical-cooperation resources, FUNDAECO must have begun to disburse the proceeds of the loan component.
- 2.19 For the disbursement of resources under the loan component, FUNDAECO will submit evidence that it has satisfied the following conditions, to the Bank's satisfaction: (i) prior to disbursement of the resources of either of the two subcomponents, it will open an escrow account at a commercial bank in which it will accrue the equivalent of the next loan payment in advance; (ii) prior to the first disbursement of the subcomponent for investment in the ecological sites, it will submit evidence that it possesses: (a) documentation of FUNDAECO's ownership of the land for each of the sites where infrastructure investments will be made; (b) the approved plans for the works to be financed with Bank resources; and (c) the environmental certificate or approval from the Departmental Office of the Ministry of Environment and Natural Resources (or competent authority) for the investments planned at each of the sites and the economic activities to be promoted, based on the environmental impact study of the works to be built (the study will reflect that the activities allow for a controlled increase in the influx of visitors); and (iii) prior to the first disbursement of resources for the lending program: (a) the Credit Regulations governing the program, and (b) the portfolio management agreement to be entered into between FUNDAECO and the selected SFI (see paragraph 2.8), both agreed upon by the SFI and duly approved by its board of directors.
- 2.20 **Revolving fund.** Project disbursements will be made through revolving funds of up to 20% for the loan component and 10% for the technical-cooperation component.
- I. Reports, evaluations, and audits**
- 2.21 **Indicators and baseline.** The indicators to be used for Bank evaluations and in general to measure the project's evolution and progress are given in the Logical Framework in the project technical files. At the start of the project, FUNDAECO will use technical-cooperation resources to hire a consultant to set baseline parameters and to design a system of indicators for the project to complement or update the indicators established initially. Once agreed upon, these parameters and indicators will form the basis for monitoring and evaluating project performance. Additionally, the environmental studies financed with technical-cooperation resources will develop indicators for monitoring the environmental inventory and the carrying capacity of the ecological sites, which will also be incorporated into project monitoring and evaluation. The indicators may be changed by agreement between the Bank and FUNDAECO, with the approval of the Bank's Representative in Guatemala.
- 2.22 **Progress reports.** FUNDAECO will submit progress reports to the Bank's Country Office in Guatemala within 60 days following the end of each six-month period. These reports will reflect the progress made in meeting the project objectives and performance targets, the problems that arose during implementation, the actions

taken to correct them, and the main activities planned for the next six-month period. The reports will include information on: (i) how the project's benefits have been transferred to the MSEs and affect the quality of life of the beneficiaries, with data on increases in the sales and net income of the MSEs; (ii) the operation of the portfolio management agreement, the performance of the SFI, and the performance of the loan portfolio; (iii) the process of selecting and evaluating credit applications from MSEs, including an itemized list of the applications approved and rejected, and the reasons for rejection; (iv) the effective interest rates and nominal interest and commissions charged the MSEs, and a comparison of these with those charged by at least two other major institutions operating in the project target area; (v) FUNDAECO's financial statements and indicators of financial sustainability; (vi) the activity in the escrow account set up to repay the Bank (paragraph 2.6); (vii) construction progress, operation, and maintenance of investment works, including carrying capacity data and the measures taken to mitigate the project's potential adverse environmental impacts; (viii) the MSEs that have been granted licenses or concessions to operate at the sites, the concession applications received, approved, and rejected, and the financial terms and conditions of those concessions; (ix) the number of visitors to each site, the amounts collected by FUNDAECO from entrance fees, the amounts transferred to the communities, and how these funds were used; (x) the work of the consultants and the technical assistance provided; (xi) the consultations held with the local communities in the selected sites; (xii) the business agreements entered into with cruise line or hotel operators; (xiii) escrow account activity. Attached to the first progress report will be the *Rules on Direct Contributions to Communities* approved by FUNDAECO's board of directors (paragraph 2.6) and information on coordination with other IDB/MIF projects (paragraph 2.15). The final report will contain a summary of accomplishments in terms of the project objectives.

- 2.23 **Evaluations.** Two evaluations will be conducted by individual consultants hired by the Country Office in Guatemala with technical-cooperation resources allocated for such purpose. The Bank may execute these resources directly, without a disbursement request from the executing agency. A midterm evaluation will be done once 50% of the project resources have been disbursed, or 20 months into execution, whichever occurs first. This evaluation will measure the accomplishment of the proposed objectives and the targets set out in the logical framework, and will assess, inter alia: (i) gains in the income of MSEs, their members, and the local communities; (ii) successes in MSE business development and in the commercial management of the sites; (iii) the use of the lending program resources and the performance of the portfolio; (iv) the access of MSEs to credit and to licenses and concessions at the sites, and the process for selecting, evaluating, and rejecting their applications; (v) the degree to which project performance targets have been met; (vi) the performance of the executing agency and of the SFI; (vii) progress in empowering the communities through tourism activities; (viii) the environmental impact of tourism and the activities and mitigation measures carried out, taking into account the project baseline and the potential positive and negative impacts on way of life and the cultural identity or integrity of the affected indigenous groups;

(ix) the quality of the information submitted in the progress reports; and (x) the lessons learned and recommendations for improving the project. The final evaluation will be done once 90% of the resources have been disbursed and will additionally document the following: (i) the project's impact on the beneficiary groups; (ii) the outcomes and fulfillment of the project objectives; (iii) the sustainability of the project activities, namely: (a) the commercial activities of the MSEs and the flow of visitors to the sites; and (b) the technical services in the field. Both evaluations will gauge whether: (i) the project benefits are being transferred to the MSEs; (ii) the project activities have directly affected the quality of life of the beneficiaries; and (iii) improved management, both of the ecological sites and of the MSEs, has had a positive impact on the net income of the MSEs and their members.

J. Project risks and mitigating factors

- 2.24 *Risk 1:* Cruise-ship tourism, which accounts for a significant part of the demand forecast for the project, is a recent phenomenon in the Guatemalan Caribbean. The trend is new, and it is unknown how long this business's local life cycle will be. External factors (terrorism, hurricanes, etc.) may also affect the flow of visitors to the area. *Mitigating factor:* The tourism development strategy will seek to develop other market segments, not only to compensate for the seasonal nature of cruises, but also as a long-term market safeguard. *Risk 2:* The potential environmental impact caused by the increased flow of tourists to protected and fragile areas. *Mitigating factors:* The technical-cooperation component will fund environmental impact studies that present mitigating factors and indicators for monitoring potential environmental effects. *Risk 3:* The local communities will have to incorporate business management habits and basic quality criteria into their products. They will also need environmental management capacities consistent with ecotourism. This necessitates a cultural change, which is generally slow and happens in the long term. *Mitigating factor:* The project calls for a system of ongoing monitoring and support of the MSEs and associative groups in the areas of business administration, credit, and quality of service. Also present are weather-related risks, which are unpredictable, and the project can do little to mitigate them.

K. Exceptions to Bank policy

- 2.25 None.