

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PERU

**DEVELOPING THE NORTHEASTERN TOURIST CIRCUIT (NTC) TO
ENHANCE MSME COMPETITIVENESS**

(PE-M1009)

DONORS MEMORANDUM

This document was prepared by the project team consisting of: Santiago Soler (MIF/OPS), Project Team Leader; Juan Belt (RE3/FI3); Jaime Giesecke (COF/CPE); Juan Pablo Severi (COF/CPE); Maritza Vela (MIF/OPS); María Elena Nawar (MIF/DEU); Gerónimo Frigerio (LEG); and Rodolfo Lizano (consultant).

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ABBREVIATIONS

AECI	Agencia Española de Cooperación Internacional [Spanish Agency for International Cooperation]
ALAC	Asociación los Andes de Cajamarca [Los Andes Association of Cajamarca]
CARETUR	Cámara Regional de Turismo [Regional Board of Tourism]
CENFOTUR	Centro de Formación en Turismo [Tourism Training Center]
NTC	Northeastern Tourist Circuit
STC	Southern Tourist Circuit
MSMEs	Micro, small, and medium-sized enterprises
INC	Instituto Nacional de Cultura [National Institute of Culture]

I. EXECUTIVE SUMMARY

DEVELOPING THE NORTHEASTERN TOURIST CIRCUIT (NTC) TO ENHANCE MSME COMPETITIVENESS (PE-M1009)

Beneficiary country: Peru

Executing agencies: Cámara Regional de Turismo de Cajamarca [Cajamarca Regional Board of Tourism-CARETUR Cajamarca] and the Asociación Los Andes de Cajamarca [Los Andes Association of Cajamarca-ALAC]

Beneficiaries: The proposed project will directly benefit: (i) 100 micro, small, and medium-sized enterprises (MSMEs) that receive training and education in the use of macroproducts,¹ business management, and good environmental and social practices; (ii) 200 businesses in the lodging, restaurant, and tour operator subsectors that obtain the NTC seal; (iii) 100 MSMEs with improved administrative management, sustainability, and service quality; (iv) 50 entrepreneurs who receive training in the design of travel products and packages; (v) 100 MSMEs that participate in the joint marketing model; and (vi) boards and organizations with strengthened operational management.

Financing:	Modality:	Nonreimbursable (Facility III-A)
	MIF ²	US\$ 798,431 (60%) ³
	Executing agency	<u>US\$ 520,233 (40%)</u>
	Total	US\$1,318,664

Objectives: The **objective** of the project is to make MSMEs more competitive by developing Peru's Northeastern Tourist Circuit (NTC) as a travel destination. The **purpose** is to design and market products, as well as strengthen sector management, as the sum of factors that define the NTC as a travel destination in Peru. This will be accomplished

¹ Macroproducts are the market image of a particular destination and serve as the basis on which private businesses design tourism products.

² The MIF contribution includes US\$15,000 for coordination activities in the sustainable tourism cluster.

³ This figure does not include cluster activities.

through four components: (1) designing sustainable tourism macroproducts; (2) developing and implementing NTC rules and guidelines; (3) marketing the NTC as a travel destination; and (4) strengthening management of the NTC.

Execution schedule: Execution period: 48 months
Disbursement period: 54 months

Special contractual conditions: **Conditions precedent to the first disbursement of the Bank's resources:** (1) the Board has been created and has convened its first meeting; (2) the Board has approved the Operating Regulations. **Conditions precedent to project execution:** Within three months of the signing of the technical-cooperation agreement: (1) an agreement between CARETUR Cajamarca and ALAC has been signed; (2) the Board has approved an annual work plan and the corresponding performance matrix for the first six months of project execution, and the baseline indicators, particularly the triggers, have been submitted. **Special disbursement:** After the agreement has been signed and the general conditions stipulated therein have been met, up to US\$50,000 may be disbursed to hire a project coordinator, prepare the first annual work plan (paragraph 5.7), and engage the services of an evaluation consultant to define the baseline indicators, particularly those that will serve as triggers.

Exceptions to Bank policy: None

Coordination with other official development finance institutions: Currently, no similar projects are being financed by other institutions. However, the executing agency will ensure that steps are taken to coordinate with any such projects that other institutions may finance in the future.

Social and environmental review: The Committee on Environment and Social Impact (CESI) reviewed the project at its 30 July meeting. Responses to the Committee's observations have been incorporated into this memorandum (paragraph 8.1).

II. BACKGROUND

- 2.1 Most tourism in Peru is concentrated in three areas: the Southern Tourist Circuit (STC), which encompasses the icons that define Peru's image as a global destination (Cuzco and Machu Picchu), the Northeastern Tourist Circuit (NTC),⁴ which has major, though less marketed, attractions, and the central region of Lima. In 2002, 186,251 people visited monuments and tourist attractions in the NTC (Chan Chan, Huacas de Moche, Sipán, Sicán, Túcume, Kuntur Wasi, Cumbe Mayo, Granja Porcón, and Kuélap), while 322,495 people visited Cuzco (Machu Picchu Sanctuary). However, statistics indicate that while the flow of tourists to Machu Picchu is holding steady, the number of annual visitors to the NTC is on the rise.⁵
- 2.2 Thus, the NTC is the primary tourism alternative to the STC and presents an opportunity to diversify Peru's tourism offerings to include cultural, nature, and adventure travel. The number of people who visited the region⁶ in 2002 and 2003 increased, with annual growth of 3%. In 2003, 69,000 foreign tourists and 1.2 million Peruvians traveled to the region, which constituted an increase of 3% over the previous year. The average stay was 1.2 days in each of the main destinations in the NTC.⁷ Analyses of tourism and, in particular, comparisons of supply and demand statistics indicate, inter alia, the following: (i) there is a clear pattern of medium and long-term growth in the NTC; (ii) none of the four primary travel destinations in the NTC are affected by early crowding (influx of tourists), which can be attributed essentially to the short periods of stay and the broad geographic distribution of attractions; (iii) average hotel occupancy rates are low (29%), which very likely translates into low profitability and quality; (iv) there is enough installed capacity, in terms of rooms, to accommodate an increase in tourists without necessarily generating land use pressures or making any major investments in tourism facilities; and (v) there are relatively few tour operators, which denotes a low capacity for designing and operating travel products and packages in the region.
- 2.3 Without a doubt, the NTC has been presented with a tremendous opportunity for the future. However, in order to take advantage of this opportunity, it must come up with solutions to a number of problems affecting the area in general, such as:

⁴ The NTC includes the departments of Amazonas, Cajamarca, La Libertad, and Lambayeque in northeastern Peru.

⁵ Centro Turístico Nor-Oriental del Perú [Northeastern Tourism Center of Peru-CTNPERU]. Tourist flow study.

⁶ Measured as the number of arrivals to the zone, based on a monthly survey of hotels conducted by Peru's Ministry of Trade and Tourism.

⁷ Centro de Estudios para el Desarrollo y la Participación [Center for Studies on Development and Participation-CEDEP], final monitoring report for the project to increase employment in the NTC.

(i) incipient degradation of a few fragile sites, due to pressure stemming from lack of awareness, uncontrolled development, and the absence of proper tourism management and administration; (ii) the lack of a critical mass of tourism products that are properly defined in terms of market segmentation,⁸ which makes it difficult for micro, small, and medium-sized enterprises (MSMEs) to clearly market adequately designed and operated travel packages; (iii) the absence of mechanisms for monitoring service quality and sustainability, which leads to heterogeneity and volatility in the provision of services (varying quality) in the region, compromising MSME competitiveness; (iv) the absence of an overall vision, which makes it hard to market the NTC as a cohesive destination; and (v) the limited management capacity demonstrated by unions, entrepreneurs, and institutions to pursue controlled development of the area based on a shared vision of the future.

- 2.4 In recent years, various initiatives have focused on developing tourism in the region: (i) project to increase employment in the NTC, implemented by the Tourism Training Center (CENFOTUR) and Yanacocha; (ii) professional development project in tourism and hotel administration, financed by the Multilateral Investment Fund (MIF) and executed by CENFOTUR, partly in Lambayeque and Cajamarca; (iii) valuing and developing tourism resources, financed by Backus & Johnston; (iv) developing professional skills and tourism awareness, financed by the Spanish Agency for International Cooperation (AECI) and coexecuted with Peru's Ministry of Trade and Tourism; (v) La Libertad-Cajamarca development project (PRODELICA) to develop economic corridors, financed by the European Union and executed by the regional governments of La Libertad and Cajamarca; and (vi) developing skills and promoting tourism, financed by the Italian-Peruvian Fund and executed by CARITAS. These initiatives have produced development results in the region of northeastern Peru. However, they have not necessarily focused on the circuit as a **travel destination** or on the stakeholders involved in the tourism sector. The proposed MIF project differs from the initiatives carried out to date inasmuch as it seeks to develop northeastern Peru in a sustainable manner within the context of a comprehensive vision and a focus on MSMEs, such that efforts to manage and market the destination serve as a catalyst for diverse initiatives by local stakeholders in the tourism sector.
- 2.5 The proposed project is consistent with the Bank's competitiveness pillar insofar as it capitalizes on existing cultural attributes, by enhancing their appeal and economic value, and promotes the sustainable management of protected areas. In

⁸ Segmentation is the process of methodological analysis to study the consumer market; consumers are grouped according to homogeneous factors (market segments); those that are most attractive to a certain company (target market) are identified, and the competitive position of the company and its tradable products are determined (positioning).

addition, the project is consistent with the Bank's country strategy with Peru because it is compatible with the first phase of the National Strategic Plan for Tourism currently being drafted in Peru, a process in which the executing agencies and stakeholders involved in NTC tourism are participating actively. Although there have been no private initiatives with a focus akin to the one presented in this memorandum, the MIF-financed project for the development of business networks in the garment-making (Gamarra) and tourism (Cuzco) clusters of Peru (MIF/AT-585) and the initiatives mentioned in paragraph 2.4 will be considered. The proposed project is part of the MIF's new sustainable tourism cluster and as such will seek to spur the sustainable development of tourism to increase benefits for local communities, preserve cultural and environmental integrity, and improve protection of ecologically sensitive areas and the nation's cultural and natural heritage.

III. PROJECT OBJECTIVES AND COMPONENTS

- 3.1 The **goal** of the proposed project is to make MSMEs more competitive by developing Peru's Northeastern Tourist Circuit (NTC) as a travel destination.⁹ The **purpose** is to design and market products, as well as strengthen sector management, as the sum of factors that define the NTC as a travel destination in Peru. The project is divided into four components.

Component 1: Designing sustainable tourism macroproducts (MIF: US\$141,650, local counterpart: US\$40,200)

- 3.2 The purpose of this component is to design a portfolio of tourism macroproducts that are sustainably managed in the NTC. The component calls for the following activities: (i) adapting a methodology for the conceptual overview, design, and sustainability of tourism macroproducts;¹⁰ (ii) identifying a portfolio of macroproducts for the NTC; (iii) training MSMEs in the sustainable management and use of fragile sites; (iv) improving the basic conditions of tourist attractions; and (v) training and assisting MSMEs to design products and sell travel packages.

⁹ For the purposes of this project, this is the geographic area encompassing one or several land-based tourism products that are primarily managed by MSMEs and that must be sold in tourist markets by tour operators under an identifying brand name.

¹⁰ Planning concept that denotes the potential combination of attractions, services, and infrastructure that characterize the competitive potential of a destination in specific markets and segments.

- 3.3 The proposed project will finance activities to adapt a methodology¹¹ based on the concepts of demand analysis, market segmentation, niche marketing, and positioning to drive the technical aspects of designing macroproducts for the NTC. These macroproducts will be duly validated and disseminated and will serve as the basis on which private businesses will design specific tourism products and packages, thus ensuring a unified image for the NTC. Training in the sustainable management of tourist attractions will facilitate the adoption of best practices for designing and operating products, which will guarantee that they are used sustainably. These activities will generate practical guidelines for the sustainable management of tourist attractions. Furthermore, entrepreneurs will receive training to develop travel products and packages that are consistent with the macroproducts and the chosen marketing strategy. Efforts to improve basic conditions at tourist attractions will be based on management plans for public use areas, which will be developed for the sites (attractions) deemed most important in the course of defining the macroproducts (to prevent adverse impacts), in close coordination with the entities responsible for operating and managing the attractions.
- 3.4 The component will define at least six macroproducts and a standardized procedure for incorporating additional macroproducts in the future, publish 3,000 handbooks on the sustainable use of tourist attractions, train 200 entrepreneurs in the use of the macroproducts and the sustainable management of tourist attractions, produce at least six management plans for the public use of tourist attractions, introduce 10 new products for sale in the region, and train 100 entrepreneurs in the design of travel products and packages.

Component 2: Developing and implementing NTC rules and guidelines (MIF: US\$176,000, local contribution: US\$20,100)

- 3.5 The purpose of this component is to implement NTC rules and guidelines¹² in order to improve the quality of services provided by MSMEs in the NTC and to make the MSMEs more competitive. The component calls for the following activities: (i) updating existing NTC rules and guidelines; (ii) training evaluators; (iii) disseminating the rules and guidelines; (iv) training the MSMEs on the rules and guidelines; (v) providing assistance to improve the management capacity of the MSMEs; and (vi) evaluating businesses.

¹¹ A macrosegmentation is performed that indicates possible generic segments (parts of the supply that would be of interest) for a particular travel destination, such as: nature, adventure, ecotourism, archaeology, sun and sand, culture, religion, spirituality, extreme sports, etc. A technical procedure (a replicable method) must be established in order to identify such segments. Based on the generic products, the private sector then initiates a process to design tourism products (marketable products per se), such as, “the adventure of a new discovery” or “archaeology for kids.”

¹² Specifications related to operations and infrastructure that lodging providers, restaurants, and tour operators in the NTC must meet.

- 3.6 NTC rules and guidelines and the corresponding evaluation processes for lodging providers, restaurants, and tour operators will be updated to incorporate guidelines related to the new macroproducts. These will include the basic aspects of good environmental, social, service, and management practices.¹³ As part of the project, technical consultants will be hired to design and teach courses in order to develop, over time, the installed capacity of educational institutions such as CENFOTUR, Universidad San Ignacio de Loyola, and other institutes of higher learning that train tourism professionals. At the same time, the project will provide direct technical assistance related to good environmental, social, service, and management practices to a group of 100 MSMEs chosen based on the eligibility criteria set forth in the Operating Regulations. The project will support training and evaluation activities by cofinancing 50% of the cost for the participating businesses.
- 3.7 As a result of this component, at least 150 businesses will receive the NTC seal, 200 others will learn about the rules and guidelines, 1,000 handbooks will be published for businesses, 100 businesses will improve their administrative management, 10 evaluators will be identified, and courses on quality and sustainability will be developed and offered to MSMEs by formal institutions.

Component 3: Marketing the NTC as a travel destination (MIF: US\$101,000, local contribution: US\$235,800)

- 3.8 The purpose of this component is to position the NTC to support MSME efforts to distribute and market travel products and packages. The component calls for the following activities: (i) designing a unified strategy for publicizing and promoting the NTC as a travel destination; (ii) designing a program to heighten awareness in civil society and the general public; (iii) designing and printing promotional materials on the NTC; and (iv) designing and implementing a joint marketing model for the MSMEs. As a result of this component, a comprehensive strategy to promote and publicize the NTC will be developed, 100 businesses will participate in the joint marketing model, and 100,000 copies of promotional materials will be produced and distributed.

Component 4: Strengthening management of the NTC (MIF: US\$42,200, local contribution: US\$83,600)

- 3.9 The purpose of this component is to strengthen the management capacity of unions and coordinate their activities within the context of a shared vision. The component calls for the following activities: (i) developing the leadership skills of private- and public-sector leaders; (ii) organizing meetings of the Board;

¹³ Set of business management rules that incorporates new and improved management tools and techniques, quality service management, and reductions in the social and environmental impact of operations, in order to make businesses more competitive.

(iii) organizing consensus-building workshops between public and private sector stakeholders; and (iv) measuring project indicators. As a result of this component, 50 leaders in the sector will receive training, 12 coordination and eight consensus-building workshops will be held, and the number of members in the Cajamarca Regional Board of Tourism (CARETUR) will increase by 20% per year.

IV. PROJECT COST AND FINANCING

- 4.1 The total estimated cost of the project is US\$1,318,664. The MIF will contribute US\$798,431 (60%) in nonreimbursable funds from Facility III-A. The executing agencies will be responsible for the balance of US\$520,233 (40%); half of that local counterpart contribution will be in cash. The MIF will finance technical assistance and training, procurement of the equipment needed for project coordination, and a portion of administrative costs. The estimated budget for the project is presented in the following table.

(In United States dollars)

Components/budget headings	MIF contribution	Local contribution	Total
Staff	162,000	70,200	232,200
Logistics	34,560	45,560	80,120
Component 1	141,650	40,200	181,850
Component 2	176,000	20,100	196,100
Component 3	101,000	235,800	336,800
Component 4	45,200	83,600	128,800
Subtotal	660,410	495,460	1,155,870
Contingencies 5%	33,021	24,773	57,794
Midterm and final evaluations	50,000	0	50,000
Audits	40,000	0	40,000
Total	783,431	520,233	1,303,664
Cluster coordination activities ¹⁴	15,000		15,000
Grand total	798,431	520,233	1,318,664
Percentages (excluding cluster activities)	60%	40%	

¹⁴ This amount, which will be used by the Bank for cluster coordination activities, will be deducted from the MIF's total contribution to the beneficiary when the technical-cooperation agreement is signed.

- 4.2 Project **sustainability** will be pursued at two levels. At the corporate level, businesses will reap the concrete benefits of the market access resulting from the development and marketing of tourism products. At the project level, the systematic method of promoting the NTC based on a development model and coordination between and improved management by project participants will set a precedent for future operations that draw on a combination of public and private resources.¹⁵ As part of the proposed project, a sustainability workshop, which Bank and executing agency representatives will attend, will be held one year before project completion to study the possibility of managing the NTC autonomously after MIF support ends.

V. EXECUTING AGENCY AND EXECUTION MECHANISM

- 5.1 The executing agencies for the project will be the Cajamarca Regional Board of Tourism (CARETUR Cajamarca) and the Los Andes Association of Cajamarca (ALAC). Both agencies will sign an agreement as a condition precedent to the start-up of project execution. The CARETUR Cajamarca was created on 21 October 2000. Its mission, as a nonprofit organization, is to develop the tourism sector in the region in a manner that is economically, socially, and environmentally sustainable. It has managed projects financed by the European Union, training projects with the local government, and Peru's FIT [Comprehensive Strengthening of Tourism] project, which is financed by the AECI. ALAC is a nonprofit organization that seeks to generate business and institutional capacity to improve the welfare of the people of Cajamarca. It is comprised of Newmont and Compañía de Minas Buenaventura and promotes social welfare and sustainable human development in Cajamarca through programs and projects that encourage the involvement of community members, local authorities, civil society, and private institutions. ALAC represents the continuation of efforts in the field of sustainable development that were initiated by the Yanacocha Association, which was responsible for directly executing projects and successfully collaborated with CARETUR to execute the project to increase employment in the NTC. It is a second-tier institution that promotes development projects through financing awarded by competition in the region and directly allocating funds to projects deemed successful or replicable. ALAC will contribute most of the local counterpart resources in cash and brings to the project a staff with considerable experience administering social and environmental

¹⁵ Although this project may be limited in its ability to directly bring about the sustainable management of the NTC, the second part of Peru's National Strategic Plan for Tourism (PENTUR) will complement the activities proposed as part of this project, achieving synergy with the policies of Committee to Promote Peru [Comisión de Promoción del Perú-PROMPERU], which has the resources and the desire to support the NTC, based on a meeting between the project team and PROMPERU's directors.

development projects. CARETUR will contribute its experience and leadership in the tourism sector.

- 5.2 The project **coordinating unit** will operate in CARETUR Cajamarca and will consist of a project coordinator, a project administrator, and an accountant. The responsibilities of the unit and the terms of reference for its members are outlined in the Operating Regulations. The unit will use an annual work plan and a performance matrix for conducting the technical coordination and comprehensive execution of the project and forwarding requests for no objection for the procurement of project goods and services. These requests, along with financial and technical reports, will be submitted to the Bank and backed by both executing agencies.
- 5.3 A **Board** will be created, consisting of one representative and one alternate from each of the following entities: the Cajamarca, Amazonas, Lambayeque, and La Libertad offices of CARETUR; the National Board of Tourism (Cámara Nacional de Turismo-CANATUR); ALAC; the Backus Foundation; the National Institute of Culture (INC); and the National Institute of Natural Resources (Instituto Nacional de Recursos Naturales-INRENA). The specific responsibilities of the Board are described in the Operating Regulations and include approving the annual work plans and changes to the Operating Regulations and preparing agreements with any private and public institutions that contribute to the sustainability of the project. The Board will operate as a collegial body that will speak with a single voice, represented by the CARETUR Cajamarca representative, who will serve as chair. Immediately after it is set up, the Board will draft an internal operating manual to help it meet its goals and perform its duties. Board members will convene at least one regular meeting every quarter (four meetings per year) and any additional meetings as required for project execution. At least twice a year, the Board will organize open forums on the status of the project for the general public. To support its work, it may establish working groups or special technical committees and invite any specialists or technical experts it deems necessary to serve on them.
- 5.4 **Execution period.** The project has an expected execution period of four years (48 months). The technical files for the project include Gantt¹⁶ and PERT¹⁷ charts to graphically represent and monitor the 48-month execution period.
- 5.5 **Project readiness.** Terms of reference for the coordinating unit staff and the various consultants have been drafted, as have the Operating Regulations. In

¹⁶ Graphic representation of the schedule of project activities.

¹⁷ Graphic representation of the sequence of activities that describes which critical tasks must be performed and when in order to achieve the project's proposed objectives.

addition, ALAC has pledged in writing to provide most of the local counterpart cash contribution.

- 5.6 **Procurement.** The coordinating unit will be responsible for procuring consulting services and specified equipment and materials, in accordance with applicable Bank and MIF policies and procedures. Activities will be scheduled based on an annual work plan duly provided for in the Operating Regulations and the performance matrix for evaluating and monitoring the annual work plan. To this end, the Operating Regulations lay out standard procedures for procuring consulting services and goods and covering other expenses.
- 5.7 The coordinating unit will perform activities and use budgetary funds that have been duly approved in the annual work plan by way of an **ex ante** review by the Bank.

VI. MONITORING AND EVALUATION

- 6.1 The Bank's Country Office in Peru will be responsible for performing oversight, monitoring fulfillment of contractual conditions, processing disbursement requests, and receiving audited financial statements. CARETUR and ALAC will submit semiannual status reports, in accordance with the Bank's standard reporting requirements.¹⁸ In order to monitor the financial management of the project, the executing agency will install the SAFOBID accounting control system or another system of similar application. A closing workshop will be scheduled towards the end of the project to evaluate outcomes and identify activities that will be required to increase project impact.
- 6.2 Annual audits, as well as a final audit, will be performed. The Bank, in collaboration with the executing agency, will hire an evaluation expert at project start-up to develop baseline indicators and a monitoring system for evaluating project outputs.¹⁹ This consultant will perform a midterm and final evaluation to determine the extent to which expected project outcomes have been attained and will participate in the closing workshop. Emphasis will be placed on lessons learned and how to bring such lessons to bear on other projects in the sustainable tourism cluster.
- 6.3 Project disbursements will be contingent on evidence of progress among the key indicators (triggers) specified at the outset in the Operating Regulations. Reaching an agreement on such indicators will be a condition precedent to the first disbursement.

¹⁸ Progress reports on 30 May and 30 November.

¹⁹ See terms of reference in the technical files.

VII. BENEFITS AND RISKS

- 7.1 **Benefits.** The proposed project is expected to generate solutions to current and potential problems associated with the sustainable management of fragile sites and quality standards in the tourism industry, in order to promote the coordinated development of the NTC. The project will produce a comprehensive model for managing the NTC that will make elements that are key for any travel destination standard: (i) design and development of macroproducts as the basis on which MSMEs position and market travel products and packages; (ii) a system for monitoring and promoting quality of services; (iii) a model for improving the business administration of the MSMEs, as a basis for their sustainability; and (iv) techniques for promoting and marketing the NTC. These tools will be extremely useful to not only the CARETUR offices, but also the regional governments and INC regional offices. In addition, the project will produce a number of formal courses, documents, instructional materials, and skilled personnel to meet future management needs.
- 7.2 The project will benefit, in particular: (i) 100 MSMEs that receive training and education in the use of macroproducts, business management, and good environmental and social practices; (ii) 200 businesses in the lodging, restaurant, and tour operator subsectors that obtain the NTC seal; (iii) 100 MSMEs with improved administrative management, sustainability, and service quality; (iv) 100 entrepreneurs who will receive training in the design of travel products and packages; (v) 50 MSMEs that participate in the joint marketing model; and (vi) boards and organizations with strengthened organizational management.²⁰
- 7.3 **Risks.** One of the risks is associated with the project's ability to generate interest among MSMEs. This risk will be mitigated by activities to raise awareness among the MSMEs and provide assistance-related incentives. In order for the project to proceed, at least 200 of the 1,385 businesses²¹ in the NTC, which represent the potential demand for the project, must participate. The second risk is related to sustaining the shared vision that the NTC requires as a travel destination. This risk will be mitigated primarily through marketing activities based on a unified strategy for the entire region. Through the discussion and validation of activities, an open forum will be created that the Board will use to attract individuals and entities involved in the tourism sector.

²⁰ The eligibility criteria for beneficiaries are described in the Operating Regulations.

²¹ 880 hotels, 493 restaurants, and 12 travel agencies.

VIII. SOCIAL AND ENVIRONMENTAL IMPACT

- 8.1 The Committee on Environment and Social Impact recommended that attention be paid to sociocultural considerations and the potential environmental impact of project activities. It also underscored the risk associated with investing in infrastructure and tourist activities, which may have undesired effects on cultural and natural attractions. With this in mind, sociocultural considerations, environmental protection, and the potential impact of tourism on the ecosystem are an integral part of the project and have been duly taken into account. The design and sustainable management of macroproducts is the starting point for the entire project and consequently their inclusion is guaranteed in all stages of the project. The development of guidelines for the sustainable use of tourist attractions and management plans for public use areas at both cultural and natural attractions will bring high strategic value to the project, inasmuch as there will be clear rules on use to prevent saturation and undesired effects that damage the attractions and compromise the competitiveness of the NTC. This experience will be extremely useful in other regions in Peru where there are risks associated with tourism at cultural and natural sites. The installed capacity of lodging providers in the NTC, which are primarily MSMEs, guarantees that the land or basic services for the community will not be strained since no major investments will be required to develop tourist facilities. A focus on products that take advantage of local companies like these will help ensure that the project's economic benefits are distributed among the local population.

LOGICAL FRAMEWORK SUMMARY

Objectives	Indicators	Means of verification	Assumptions
Goal			
To make micro, small, and medium-sized enterprises (MSMEs) more competitive by consolidating the development of the Northeastern Tourist Circuit (NTC) as a travel destination ¹	<ul style="list-style-type: none"> The number of visitors to the NTC increases at an annual average rate of 7%.² * <i>Definition and projected estimate based on the indicators to be developed by the evaluation consultant who will be hired at project start-up.</i> 	<ul style="list-style-type: none"> Statistics from the Ministry of Trade and Tourism Ex post evaluation Opinion poll 	<ul style="list-style-type: none"> No extraordinary events adversely affect the tourism industry in Peru.
Purpose			
To design and market products, as well as strengthen sector management, as the sum of factors that define the NTC as a travel destination in Peru	<ul style="list-style-type: none"> Tourism management model³ for the NTC implemented and sustainably operating by project completion 	<ul style="list-style-type: none"> Project report based on the matrix of impact indicators defined by the evaluation consultant Project completion report Project Performance Monitoring Report (PPMR) Progress and final reports Sustainability and closing workshops 	<ul style="list-style-type: none"> Peru's central, regional, and municipal governments invest or encourage investment in the maintenance and expansion of infrastructure and basic services in the NTC.

¹ For the purposes of this project, this refers to the geographic area encompassing one or several land-based tourism products that are primarily managed by MSMEs and that must be sold in tourist markets by tour operators under an identifying brand name.

² For the purposes of this project, there is a direct correlation between the number of visitors and increases in the competitiveness of the participating small and medium-sized enterprises in the NTC.

³ Systematic method of spurring the development of a travel destination by identifying the target segment (demand), organizing the services (supply of services by MSMEs), performing marketing (prices, distribution, and advertising), protecting the tourist attractions (management of tourism resources), and providing travel products (through quality businesses employing skilled personnel).

Objectives	Indicators	Means of verification	Assumptions
Components			
Component 1: Designing sustainable tourism macroproducts	A portfolio of tourist macroproducts for the NTC managed sustainably by the second year of project execution <ul style="list-style-type: none"> At least six macroproducts identified and documented in the NTC by the end of the first year 3,000 handbooks on the sustainable use of tourist attractions published by the end of the first year 200 MSME entrepreneurs educated about and trained in the macroproducts and the sustainable management of tourist attractions by the end of the first year Six management plans for public use zones at the main tourist attractions designed and approved A cooperation agreement signed with the National Institute of Culture (INC) and the National Institute of Natural Resources (INRENA) 10 new products marketed in the region by project completion 	<ul style="list-style-type: none"> Progress and final reports Project completion report PPMR Midterm and final evaluations Report on workshops using participant surveys Evaluation surveys on entrepreneurs' familiarity with macroproducts 	<ul style="list-style-type: none"> The key participants remain committed to and identify with the proposed project. The central government, the National Institute of Culture (INC), and the National Institute of Natural Resources (INRENA) maintain policies regarding the use and preservation of tourist attractions.
Component 2: Developing and implementing NTC rules and guidelines	Rules and guidelines implemented (by project completion) <ul style="list-style-type: none"> 200 businesses with the NTC seal 1,000 handbooks published 200 additional businesses educated about the rules and guidelines 100 businesses with improved business management 	<ul style="list-style-type: none"> Businesses with the NTC seal Customer satisfaction survey before and after Survey of businesses without the seal on knowledge and implementation of the rules and guidelines Evaluation of improvements in business management 	<ul style="list-style-type: none"> The businesses are able to adopt the rules and guidelines.

Objectives	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> 10 inspectors recognized by the NTC Training courses for MSMEs formally offered at educational institutions 	<ul style="list-style-type: none"> Progress and final reports Project completion report PPMR Midterm and final evaluations Agreements signed and courses developed 	
Component 3: Marketing the NTC as a travel destination	Marketing and publicity plan implemented by project completion <ul style="list-style-type: none"> Comprehensive promotion and publicity strategy for the NTC 200,000 copies of promotional materials distributed 100 MSMEs participating in the joint marketing model 	<ul style="list-style-type: none"> Progress and final reports Project completion report PPMR Midterm and final evaluations Survey of tour operators Materials produced 	<ul style="list-style-type: none"> The principal stakeholders in the NTC remain in consensus, maintain a shared vision, and pursue unified action.
Component 4: Strengthening management of the NTC	Main actors in the NTC coordinating actions within the context of a shared vision <ul style="list-style-type: none"> 50 sector leaders trained in Cajamarca, La Libertad, Lambayeque, and Amazonas 12 coordination workshops and 8 consensus-building workshops Number of CARETUR members increases 20% per year 	<ul style="list-style-type: none"> Progress and final reports Project completion report PPMR Midterm and final evaluations 	<ul style="list-style-type: none"> The regional tourism boards transfer benefits to their members.
Activities			
Component 1: 1.1 Adapting a methodology for the conceptual overview, design, and sustainability of tourism macroproducts	US\$15,400	Project financial records and progress reports	The executing agency is capable of executing the many project activities. The project is capable of producing lessons and best practices for managing the NTC.

Objectives	Indicators	Means of verification	Assumptions
1.2 Identifying a portfolio of macroproducts for the NTC 1.3 Providing education about and training in the sustainable management and use of fragile sites 1.4 Improving the conditions of tourist attractions 1.5 Training and assisting MSMEs to design products and sell travel packages	US\$40,000 US\$33,250 US\$23,000 US\$30,000		
Component 2: 2.1 Updating NTC rules and guidelines 2.2 Training evaluators 2.3 Disseminating the rules and guidelines 2.4 Training the MSMEs on the rules and guidelines 2.5 Providing assistance to improve the management capacity of the MSMEs 2.6 Evaluating businesses	US\$22,000 US\$39,000 US\$20,000 US\$60,000 US\$35,000	Project financial records and progress reports	Idem Component 1
Component 3: 3.1 Designing a unified strategy for publicizing and promoting the NTC as a travel destination 3.2 Tourism awareness-raising program (civil society and the general public)	US\$20,000 US\$3,000	Project financial records and progress reports	Idem Component 1

Objectives	Indicators	Means of verification	Assumptions
3.3 Designing and printing promotional material on the NTC	US\$42,000		
3.4 Designing and implementing a joint marketing model for the MSMEs	US\$36,000		
Component 4:			
4.1 Developing the leadership skills (training) of private- and public-sector leaders	US\$14,000	Project financial records and progress reports	Idem Component 1
4.2 Organizing meetings of the Board			
4.3 Organizing consensus-building workshops between public- and private-sector actors	US\$3,200		
4.4 Measuring indicators to evaluate triggers	US\$28,000		

Summary budget
PE- M1009

HEADING	MIF US\$	Local US\$	TOTAL US\$
Staff and logistics	\$196,560	\$115,760	\$312,320
Staff			
Staff	\$162,000	\$70,200	\$232,200
Project coordinator	\$162,000		\$162,000
Accountant (part time)		\$16,200	\$16,200
Project manager		\$54,000	\$54,000
Logistics	\$34,560	\$45,560	\$80,120
Office space (US\$250 x month)		\$10,800	\$10,800
Furniture		\$5,000	\$5,000
Supplies (US\$200 x month x 3 years)	\$5,760	\$3,840	\$9,600
Communications (US\$500/month)	\$21,600	\$5,400	\$27,000
Courier service 100 trips per month x US\$2	\$7,200	\$1,800	\$9,000
3 tickets per year to Lima US\$120 / ticket (12 tickets over 4 years)		\$1,440	\$1,440
Tickets for 12 trips per year in 4 regions per year at US\$20/trip		\$3,840	\$3,840
Per diem in Lima for 12 two-day trips at \$80/day		\$1,920	\$1,920
Per diem for 96 regional two-day trips at \$60/day		\$11,520	\$11,520
Component 1: Product design and sustainability	\$141,650	\$40,200	\$181,850
1.1 Adapting a methodology for designing macroproducts	\$15,400		\$15,400
1.2 Identifying a portfolio of macroproducts for the NTC	\$40,000	\$14,000	\$54,000
1.3 Providing training in the sustainable management and use of fragile sites	\$33,250	\$11,200	\$44,450
1.4 Improving the conditions of the products	\$23,000	\$15,000	\$38,000
1.5 Assisting MSMEs with the design of products and marketing of travel packages	\$30,000		\$30,000
Component 2: Tourism quality seal	\$176,000	\$20,100	\$196,100
2.1 Updating technical quality standards and evaluation procedures	\$22,000	\$2,800	\$24,800
2.2 Training evaluators	\$39,000	\$7,700	\$46,700
2.3 Disseminating rules and guidelines		\$9,600	\$9,600
2.4 Providing training to MSMEs on quality standards	\$20,000		\$20,000
2.5 Assisting MSMEs implement (socioenvironmental, management, and service) best practices	\$60,000		\$60,000
2.6 Evaluating businesses	\$35,000		\$35,000
Component 3: NTC marketing	\$101,000	\$235,800	\$336,800
3.1 Designing a unified strategy for publicizing and promoting the NTC	\$20,000	\$1,000	\$21,000
3.2 Designing a program to educate civil society	\$3,000	\$43,500	\$46,500
3.3 Designing and printing promotional material on the NTC	\$42,000	\$191,300	\$233,300
3.4 Designing a joint marketing model	\$36,000		\$36,000
Component 4: Sector strengthening	\$45,200	\$83,600	\$128,800
4.1 Developing the leadership skills (training) of private and public sectors leaders	\$14,000	\$10,000	\$24,000
4.2 Organizing quarterly meetings of the Board		\$54,400	\$54,400
4.3 Organizing consensus-building workshops between public- and private-sector stakeholders	\$3,200	\$3,200	\$6,400
4.4 Measuring project indicators	\$28,000	\$16,000	\$44,000
SUBTOTAL	\$660,410	\$495,460	\$1,155,870
Contingencies 5%	\$33,021	\$24,773	\$57,794
Evaluation	\$50,000		\$50,000
Audits	\$40,000		\$40,000
TOTAL	\$783,431	\$520,233	\$1,303,664
Cluster monitoring activities	\$15,000		\$15,000
GRAND TOTAL	\$798,431	\$520,233	\$1,318,664
Percentages (excluding cluster activities)	60%	40%	100%

RELATED PROJECTS IN PERU AND IN THE SUSTAINABLE TOURISM CLUSTER
DEVELOPING THE NORTHEASTERN TOURIST CIRCUIT (NTC) TO ENHANCE MSME COMPETITIVENESS
(PE-M1009)

A. Similar or related MIF projects

Project No. and approval date	Project title, executing agency, and amount	Signing date and disbursement period in months	Percent disbursed	Comments
ATN/MH-5876-PE 25 February 1998	Tourism development and training program in Ayacucho Caritas Ayacucho US\$1,600,000 MIF contribution	21 May 1998 36 months	90% Completed The unused funds were cancelled.	At project completion, all planned works had been fully executed, and the training course designed for youth had been imparted.
ATN/MH-6377-PE 3 February 1999	Development of national skills standards and regional training programs for the tourism industry Centro de Formación en Turismo (CENFOTUR) [Tourism Training Center] US\$1,087,000 MIF contribution	28 April 1999 36 months	100%	At project completion, on 31 March 2003, all planned works had been fully executed, and the training course designed for youth had been imparted. In accordance with the project adjustment, the general and specific objectives were met, even though the community awareness component was deactivated prior to project completion.

B. Similar or related Bank projects

None

C. Projects related to the same sector or beneficiaries

Project No. and approval date	Project title, executing agency, and amount	Signing date and disbursement period in months	Percent disbursed	Comments
ATN/ME-7703-PE 5 December 2001	Promotion of the competitive development of Peruvian handicrafts Desarrollo Competitivo de la Artesanía Peruana (IDESI) [Competitive Development of Peruvian Handicrafts] US\$650,000 MIF contribution	17 January 2002 42 months	63%	Project performance is classified as satisfactory. The project is slowly moving towards an adequate execution pace. The executing agency—at the behest of the portfolio review mission—committed to an execution plan that would make up for delays. However, the pace of the project is defined by the artisans' ability to absorb the technical assistance and the proposals, which cannot be forced.
ATN/ME-7935-PE 24 June 2002	Development of horizontal productive chains of small enterprises in the garment and textile sectors of Arequipa and Puno El Taller Asociación de Promoción y Desarrollo [Promotion and Development Association Workshop] US\$92,600 MIF contribution	2 September 2002 24 months	94%	Project performance is classified as very satisfactory. This classification is based on the fact that project execution has proceeded adequately, in terms of the deadlines and the quality of the actions and activities, with the desired impact on entrepreneurs and networks. Project assumptions continue to be valid, enabling project execution to proceed as expected.
ATN/ME-8616-PE 21 January 2004	Development of business networks in the garment-making (Gamarra) and tourism (Cuzco) clusters of Peru Comisión de Promoción de la Pequeña y Micro Empresa (Prompyme) [Microenterprise and Small Business Development Committee] US\$970,000 MIF contribution	23 March 2004 42 months	0%	Project performance is classified as satisfactory. The project has just begun, but the executing agency's level of experience lends credibility to its assumptions.

D. Projects in the Sustainable tourism cluster

Project No. and approval date	Project title, executing agency, and amount	Signing date and disbursement period in months	Percent disbursed	Comments
ATN/ME-8382-RG 30 July 2003	International accreditation system and consolidation of national systems for sustainable tourism certification to facilitate SME competitiveness and market access Asociación Alianza del Bosque Lluvioso [Rainforest Alliance Association] US\$3,020,000 MIF contribution	27 October 2003 54 months	12%	Project performance is classified as satisfactory. The assumptions remain valid, project activities are being performed without any problems, and the initial targets are being surpassed.