DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

TOURISM DEVELOPMENT PROGRAM IN NORTHEASTERN BRAZIL – 2ND STAGE (PRODETUR/NE-II)

(BR-0323)

LOAN PROPOSAL

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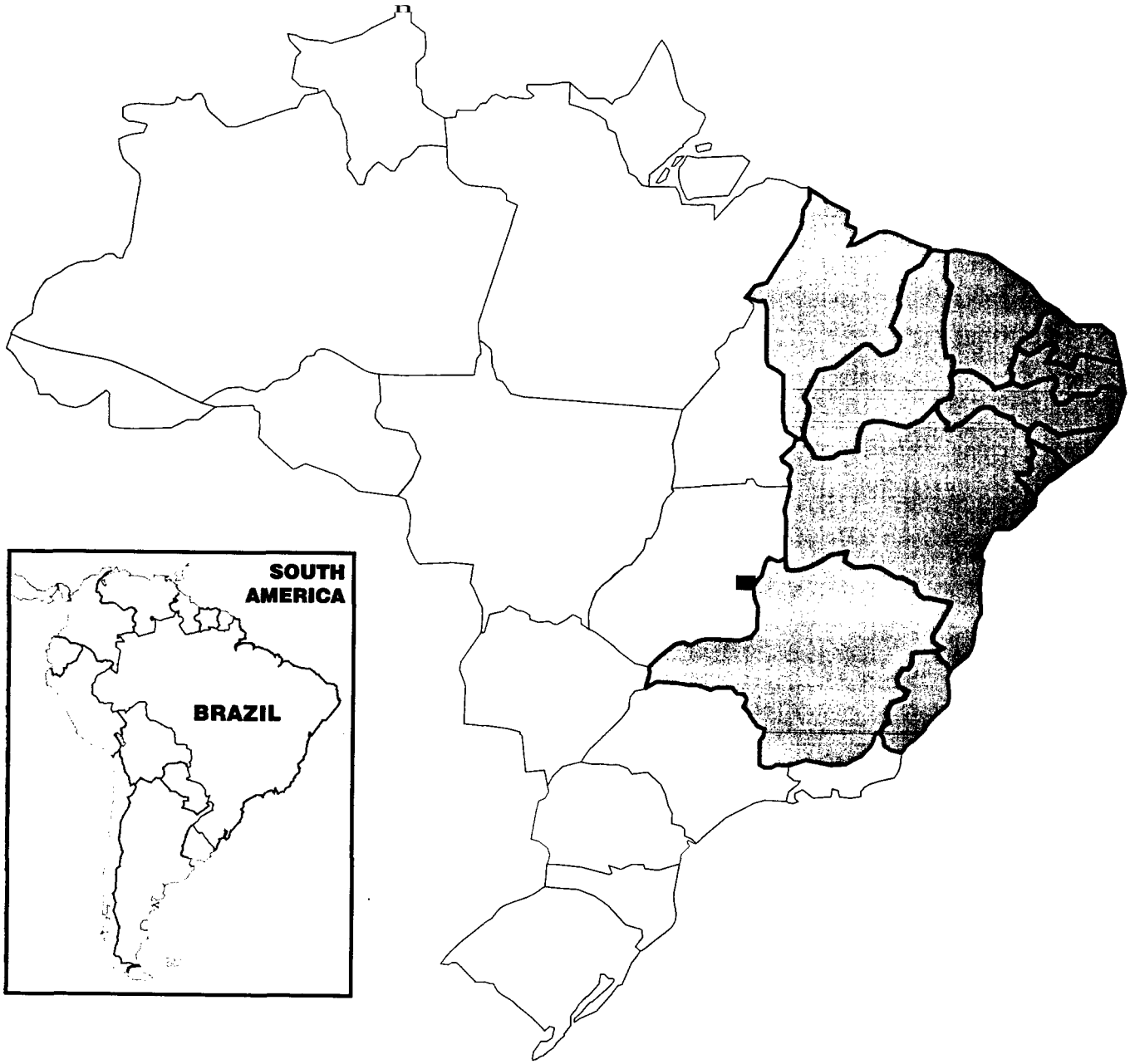
ABBREVIATIONS

BA	Bahia
BACEN	Banco Central do Brasil
BN	Banco do Nordeste do Brasil
BNDES	Banco Nacional de Desenvolvimento Econômico e Social
CMT	Central Management Team
COMDEMA	Local Environmental Councils
EA	Environmental Assets
EMBRATUR	Brazilian Institute of Tourism
FNE	Fundo Constitucional do Financiamiento do Nordeste
IBGE	Brazilian Institute for Geography and Statistics
IDB	Inter-American Development Bank
IDH	Index of Human Development
ITDP	Integrated Tourism Development Plans
MET	Ministry of Sports and Tourism
NGO	Non-governmental Organization
OC	Ordinary Capital
OR	Operating Regulations
PBA	Environmental Management Plan
PMAT	Tax Administration Modernization Program
PNAFM	Administrative and Fiscal Management Program of Brazil Municipalities
PNMT	Programa Nacional de Municipalização do Turismo
PRODETUR/NE-II	Tourism Development Program in Northeastern Brazil - 2nd Stage
PTI	Poverty Targeted Investment
RN	Rio Grande do Norte
SE	Sergipe
SEA	Strategic Environmental Assessment
SEU	State Executing Units
US	United States

B R A Z I L

TOURISM DEVELOPMENT PROGRAM IN NORTHEASTERN BRAZIL - 2nd STAGE (PRODETUR/NE-II)

• BR-0323 •



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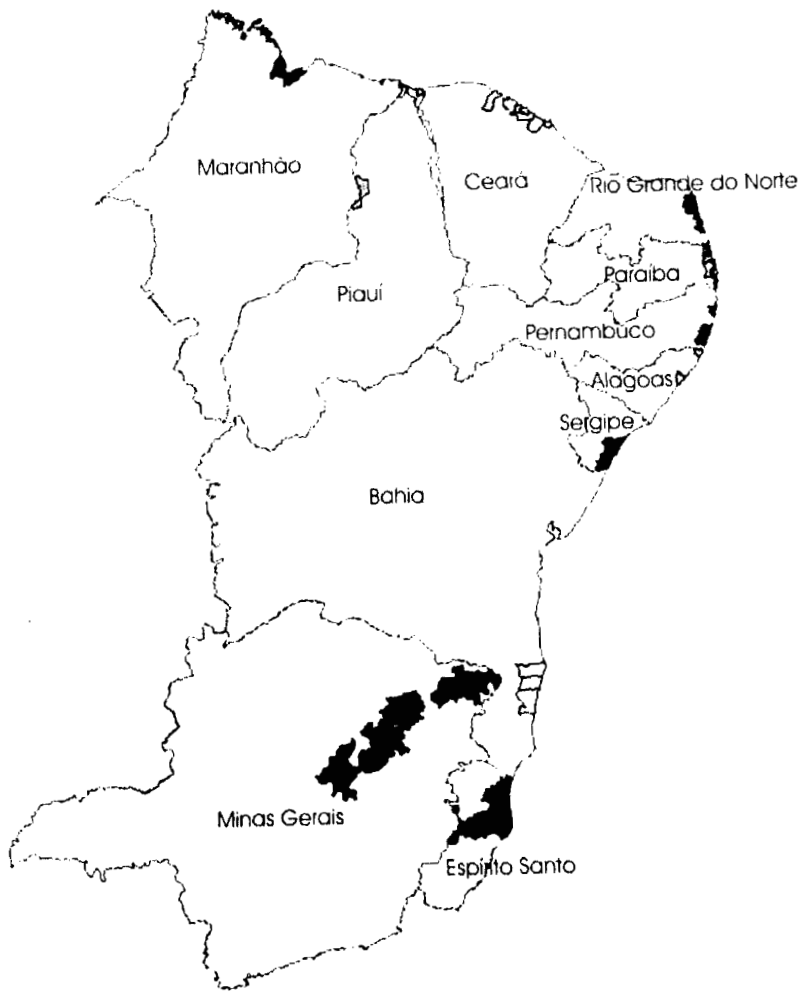
DESIGN UNIT - ITS-GSV 1.29.2002

BRAZIL TOURISM DEVELOPMENT PROGRAM IN NORTHEASTERN BRAZIL- SECOND STAGE (PRODETUR/NE-II) BR-0323

PRIORITY TOURISM POLES OF PRODETUR/NE-II



SÃO LUIS E ALCÂNTAR POLE (MA)
São Luís - São José de Ri mar Paço do umiar - Alcântara - Raposa

COSTA DELTA POLE (P
Teresina - Parnaíba - Luís orre - Cajueirda Praia - Ilha Grande de Santa Isabe

CEARÁ COSTA DO SOL POLE (CE)
Fortaleza - Caucaia - Paraí ru ão Gonçalo do Amarante - Paraipaba - Itaboca Trairi

COSTA DAS DUNAS POLE (RN)
Natal - Parnamirim - Ceará Mirim Extremo - Nísia Floresta - Maxaranguape - res Tibau do Sul - São Gonçalo do Amarante - Se do Georgino velino

COSTA DAS PISCINAS POLE (PB)
João Pessoa - Santa Rita Bayeux - Cabedlo - Conde - Pitimbu - Lucena - Rio Tin - Mamaraca - Baía da Traição - Marcação

LITORAL POLE (PE)
Recife - Ipojuca - Sirinhaém - Rio Formoso - Tamamdaré - Paulista - Olinda

COSTA DOURADA POLE (AL)
Macéio - Maragogi

COSTA DOS COQUEIROS POLE (SE)
Aracaju - São Cristovão - Barra dos Coqueiros - Itaporanga d'Ajuda - India b - Santa Luzia do Itanhy - Nossa Senhora do Socorro

COSTA DO DESCOBRIMENTO POLE (BA)
Porto Seguro - Belmonte - an Cruz de Cabrália

VALE DO JEQUITINHONHA POLE (MG)
Almenara - Angelândia - Aricanduva - Berilo - Capelinha - Chapada do Norte - Coronel Murta - Couto de Magalhães de Minas - Diamantina - Felício dos Santos Santos - Francisco Itamarandiba - Itinga - Jacinto - Jequitinhonha - Novas - Rubim - Salto da Divisa - São Gonçalo do Ri Pito - Serro - Turmalina - Veredina - Virgem da Lapa

ESPIRITO SANTO POLE (ES)
Linhares - Jaguaré - Sooret São Mateus Conceição da Barra - Colatina - Panc - Alto do Rio Novo - Baixo Guandu - Marilândia - Rio R

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INTER-AMERICANDEVELOPMENT BANK
Regional Operations Support Office
Operational Information Unit

BRAZIL

IDB LOANS

APPROVED AS OF DECEMBER 31, 2001

	US$Thousand	Percent
TOTAL APPROVED	**23,451,568**	
DISBURSED	17,720,166	75.6%
UNDISBURSED BALANCE	5,731,402	24.4%
CANCELLATIONS	1,354,947	5.8%
PRINCIPAL COLLECTED	5,924,955	25.3%
APPROVED BY FUND		
ORDINARY CAPITAL	21,763,825	92.8%
FUND FOR SPECIAL OPERATIONS	1,558,545	6.6%
OTHER FUNDS	129,198	0.6%
OUSTANDING DEBT BALANCE	**11,795,211**	
ORDINARY CAPITAL	11,369,009	96.4%
FUND FOR SPECIAL OPERATIONS	425,621	3.6%
OTHER FUNDS	581	0.0%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	947,405	4.0%
INDUSTRY, TOURISM, SCIENCE _TECHNOLOGY	5,839,045	24.9%
ENERGY	2,284,065	9.7%
TRANSPORTATION AND COMMUNICATIONS	3,624,047	15.5%
EDUCATION	849,145	3.6%
HEALTH AND SANITATION	2,866,697	12.2%
ENVIRONMENT	584,332	2.5%
URBAN DEVELOPMENT	2,199,932	9.4%
SOCIAL INVESTMENT AND MICROENTERPRISE	2,831,435	12.1%
REFORM _PUBLIC SECTOR MODERNIZATION	1,079,385	4.6%
EXPORT FINANCING	244,977	1.0%
PREINVESTMENT AND OTHER	101,103	0.4%

** Net of cancellations with monetary adjustments and export financing loan collections*

INTER-AMERICAN DEVELOPMENT BANK
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BRAZIL

STATUS OF LOANS IN EXECUTION AS DECEMBER 31,2001

(Amounts in US$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
Before 1995	7	1,649,100	1,437,995	87.20%
1995 - 1996	11	2,388,800	1,661,667	69.56%
1997 - 1998	13	2,586,965	1,424,022	55.05 %
1999 - 2000	16	1,836,700	264,974	14.43%
2001	10	2,055,480	0	0.00 %
TOTAL	57	10,517,046	$4,788,658	45.53%

* Net of Cancellations . Excluding export financing loans.

INTER-AMERICAN DEVELOPMENT BANK
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Operational Information Unit

BRAZIL

TENTATIVE LENDING PROGRAM

		US$ Millions	
2002			
BR0301	NORTHEAST MICROENTERPRISE	30.0	APPROVED
BR0355	SANTA CATARINA HIGHWAYS	150.0	
BR0323	PRODETUR II NORTHEAST REGION	240.0	
BR0364	DIVERSITY IN UNIVERSITY	5.0	
BR0357	PARA URBAN DEVELOPMENTE (PARA URBE)	48.0	
BR0351	GOIANIA WATER AND SANITATION	50.0	
BR0367	TERMOACU CO-GENERATION POWER PROJECT	20.0	
BR0374	URBAN PARANA	100.0	
BR0378	Ethics Promotion	3.0	
BR0302	FORTALEZA URBAN TRANSPORT	86.2	
BR0313	ACRE SUSTAINABLE DEVELOPMENT	80.0	
BR0370	CAMPOS NOVOS HYDROELECTRIC POWER PROJECT	75.0	
BR0365	MODERNIZATION COMPTROLLER OFFICE	5.0	
BR0324	CEARA SANITATION II	100.0	
BR0254	FLORIANOPOLIS-OSORIO HIGHWAY MODERNIZ.	300.0	
BR0377	Electropaulo Partial Credit Guarantee	75.0	
BR0366	INCREASE ELETRIC POWER SUPPLY	600.0	
	TOTAL, A	**1,967.2**	
BR0372	INSTITUTIONAL REFORM SAO PAULO	15.0	
BR0369	STATE REFORM SECTOR LOAN	500.0	
BR0318	PRODETUR SUL	200.0	
BR0363	SALVADOR URBAN TRANPORT	34.0	
BR0368	CARIOBA II THERMOELECTRIC POWER PROJECT	74.5	
	TOTAL B	**823.5**	
	TOTAL 2002	**2,790.7**	
2003			
BR0373	Promotion of Cultural Development	10.0	
BR0299	IGARAPES-MANAUS ENVIRONM. REHABILITATION	50.0	
BR0297	NATIONAL FOOD/AGRICULTURAL RESEARCH SYST	60.0	
BR0317	GUANABARA BAY SANITATION II	350.0	
BR0343	HEALTH PERSONAL PROFESSIONALIZATION 2	200.0	
BR0282	METEOROLOGY MODERNIZATION PROGRAM	50.0	
BR0337	MUNICIPAL FISCAL 2	400.0	
BR0339	FNMA 3	0.0	
BR0356	ESPIRITU *SANTO* HIGHWAYS	73.0	
BR0358	FINANCING OF PRIVATE DELIVERY OF SOC.SER	200.0	
BR0329	RODAVIAL MERCOSUL III	300.0	
BR0330	TECHNOLOGICAL INNOVATION	0.0	
BR0266	NEW IRRIGATION MODEL	90.0	
BR0338	TIETE 3	150.0	
BR0321	BASIN GUAIBA ENMVIROMENTAL RECUPRAT. II	100.0	
BR0362	FEDERAL ROADS II	200.0	
BR0376	SUSTAINABLE DEVELOPMENT IN AMAPA	21.0	
BR0371	Sao Paulo Line #5	175.5	
BR0359	PANTANAL SUSTAINABLE DEVELOPMENT II	117.5	
BR0375	URBAN TRANSPORTATION CURITIBA II	40.0	
	TOTAL A	**2,587.0**	

TOURISM DEVELOPMENT PROGRAM IN NORTHEASTERN BRAZIL – 2ND STAGE (PRODETUR/NE-II)

(BR-0323)

EXECUTIVE SUMMARY

Borrower:	Banco do Nordeste do Brasil (BN)		
Guarantor:	Federative Republic of Brazil		
Executing agency:	Banco do Nordeste do Brasil (BN)		
Amount and source:	IDB:(OC)	US$	240 million
	Local:	US$	160 million
	Total:	US$	400 million
Financial terms and conditions:	Amortization Period:	25	Years
	Grace Period:	5	Years
	Disbursement Period:	5	Years
	Commitment of Resources:	4	Years
	Interest Rate:	variable	
	Supervision and Inspection:	1.00	%
	Credit Fee:	0.75	%
	Currency:	US$ from the Single Currency Facility	

Objectives: The goal of PRODETUR/NE-II is to improve the quality of life of the permanent population of tourism poles as measured by increased employment, and increased municipal revenues to provide urban services and better environmental quality. This is to be accomplished by generating and properly managing increased income from tourism, which is the Program's purpose.

Description: The Program will continue support for the tourism sector in the Northeast region of Brazil by financing infrastructure investments necessary for an adequate provision of public services to keep up with the expected tourism growth in the area, as well as to improve the quality of life of the local population. However, the Program takes the lessons learned from PRODETUR/NE-I and moves away from isolated individual investments by establishing the mechanisms to ensure future investments in the sector are consistent with the concepts underlying sustainable and responsible tourism. These concepts are tourism poles, an integrated and participatory planning process, and adequate planning, environmental and fiscal management capacity at the local level prior to any infrastructure

investment. The Program is organized according to: (i) municipal actions that will ensure that local governments and populations will have the instruments and capacity to ensure long-term sustainable and responsible tourism development; (ii) state actions that will ensure that the state governments have the capacity for strategic planning and project development, for implementing awareness campaigns and training programs so the local population can benefit from tourism development, and consolidate and upgrade basic infrastructure and public services in the tourism poles; and (iii) promotion of private investment.

Component 1: Strengthening municipal capacity to manage and benefit from tourism (US$65.3 million). The component will support: (i) access to municipal administrative and fiscal management programs; (ii) municipal capacity for tourism management, (iii) solid waste management; (iv) protection and conservation of natural and cultural assets (beaches, reefs, parks, and historical sites); and (v) urbanization of tourist areas.

Component 2: Strengthening of state capacity for strategic planning, training and infrastructure for tourism growth (US$253.9 million). The component will support state actions in the following areas: (i) strategic studies, managerial information systems and training to strengthen state capacity to plan, monitor and evaluate tourist activity; (ii) awareness campaigns; (iii) employment training and skills development for the local population; and (iv) the investments needed to support tourism growth in the poles, such as rehabilitation and expansion of water and sewerage systems, transportation and other infrastructure.

Component 3: Promotion of private investment (US$20.3 million). This component will finance: (i) training seminars and workshops targeting small and medium size local travel and tourism business owners, as well as NGO leaders in the areas of basic tourism management, quality control, labor certification, tourism marketing and promotion, as well as sector organization; and (ii) consulting services for the preparation of comprehensive marketing plans and campaigns that will promote the main tourist attractions of tourism poles.

Bank's country and sector strategy:

The Bank's country strategy for Brazil establishes four priorities: (i) reform of the public sector; (ii) improving competitiveness; (iii) reducing social inequities; and (iv) addressing environmental management and natural resource problems with an emphasis on protecting fragile ecosystems. The proposed Program is fully consistent with all pillars of the Bank's strategy. Tourism development is a specific priority of the country strategy, and the proposed Program supports government efforts to reduce social inequities and poverty by generating employment and increasing incomes. It provides transportation and sanitation infrastructure that will benefit local populations. It increases the capacity of municipal governments to regulate and financially manage public services that benefit both the tourist and host populations. Finally, it leads to improved land use policies that will benefit the environment.

Environmental/ social review:

The Program will have a number of positive environmental and social impacts from improved solid waste management, potable water and sanitation, protection of fragile areas such as beaches, coral reefs, coastal dunes and freshwater lagoons, and protection and management of Atlantic Forest and mangrove areas. Community participation in municipal planning and setting of priorities for tourism development actions will ensure that the local population will have an active voice in deciding the direction of tourism development. Community education on tourism and environment and worker training will have positive social impact. To avoid and mitigate the potential negative direct impacts, the Operating Regulations establish a set of technical guidelines and procedures for project environmental analysis, evaluation, supervision and monitoring that are incorporated in all stages of the project cycle.

Benefits: The Program supports the region's socioeconomic development efforts by promoting investments in a sector with comparative advantages: the tourism industry. The Program will directly benefit low-income populations estimated at slightly more than 1.3 million people in over 200 municipalities in 11 participating states. By using the concept of tourism poles and integrated participatory planning, the Program ensures that the expected growth of tourism in the Northeast is environmentally sustainable in the long-run and the returns can be adequately captured to benefit the permanent population of the region. The Program will require each state to prepare an integrated development plan that will assign priority to investments and actions based on their contribution to increasing revenue from tourism. Likewise, it will foster the development of state and municipal capacity to manage tourism flows by strengthening its environmental management and fiscal management functions.

Risks: **Expected growth of tourism demand.** Tourism demand depends upon multiple factors exogenous to the Program, including income levels and prices of similar national and international destinations with similar amenities. Although prices are still competitive in the Northeast, economic changes may affect the sector's growth rate and the economic viability of public infrastructure investments. To minimize this risk the Program will finance a comprehensive regional demand study that will provide the basis for expansion into new tourism poles.

Fiscal and administrative management of municipalities. Many of the municipalities in the tourism poles have weak fiscal and administrative management. Despite rapid growth in tourism, revenues from taxation scarcely increased. Many municipalities proved unwilling or unable to develop and enforce land use planning, zoning, building codes or environmental regulations. Weak administration poses the risk that municipalities will not maintain the quality of urban services necessary to sustain tourism or that they will divert revenue from uses that benefit the local population to uses that primarily benefit tourists. To manage these risks, PRODETUR/NE-II emphasizes strengthening of both fiscal and land use planning and administration. The Program will require that this management capacity be in place before new investments, particularly investment in roads, are made.

Delays in execution. Due to the complex execution scheme necessary to address the complex nature of tourism development, the Program runs the risk of delays in execution. The Program has a five year execution period to address this risk, and includes quar-

terly coordination reviews to identify execution difficulties and suggest solutions.

Limitations in public banks lending to the public sector. Resolution 2827 of the Central Bank establishes the conditions to ensure that financial institutions do not exceed limits on the percentage of loans to the public sector by public banks such as the BN. These limits are calculated as a percentage of the lender's net revenues. The BN has reached such limits, and therefore the execution of the Program may experience delays since BN's capacity to lend to the public sector will depend on the growth of its net revenues. In order to by-pass this limitation and therefore mitigate this risk, the Federal Government, based on the exceptions stated in the same Resolution 2827, must provide guarantees to the BN for sub-loans to the states. The Procuraduria Geral is already preparing a draft law that will be submitted to Congress to allow the issuing of these guarantees.

Special contractual clauses:

Prior to first disbursement, the Borrower must submit evidence to the Bank of the following:

i. BN complies with all prudential regulations issued by the Central Bank of Brazil regarding the status of loan portfolio and level of capitalization (¶4.14).

ii. The appointment of the core team of the Central Management Team (CMT) in the BN and that the qualifications of the professionals meet specific criteria (¶3.6).

iii. The shortlist of specialized firms, from which one will be selected to assist the CMT in the technical evaluation of integrated tourism development plans and projects, to prepare periodic environmental audits and to evaluate the overall impact analysis of the Program (¶3.7).

iv. The signed agreement between the Ministry of Sports and Tourism (MET) and the BN setting forth co-executing obligations and counterpart allocations (¶3.9).

v. The formal establishment of the State Executing Units (SEU) in Bahia and Sergipe (¶3.12), and the respective Tourism Councils in the poles of Costa do Descobrimento and Costa dos Coquei-

rais(¶3.17).

vi. The approval and putting into effect the Operating Regulations (OR) (¶3.20).

vii. The presentation of the sub-loan agreement model acceptable to the Bank (¶3.25).

viii. Submission of a plan for the implementation of the internal information system for monitoring and evaluation and the methodology for measuring the impact indicators (¶3.62).

Other Conditions:

i. The first disbursement of resources corresponding to each sub-loan will be subject to: (a) evidence that the sub-borrower complies with the conditions set forth in Brazilian legislation for contracting the sub-loan; (b) the sub-borrower complies with the counterpart requirement set forth in Article *4.01 (c)* of the Bank's contractual General Conditions; (c) approval of the ITDP of the tourism pole; (d) establishment of the SEU with the appropriate personnel, and the necessary financial and accounting systems; (e) establishment of the Tourism Council of the Pole; (f) appointment of the Program Coordinator by each municipality of the pole; and (g) signature of the sub-loan contract (¶3.21).

ii. The disbursement of sub-loan resources for infrastructure (urbanization of tourist areas, water and sanitation and roads and other transportation works) in addition to (i) above, will be subject to evidence that: (a) each municipality where infrastructure will be built has: (i) land use master plan approved by the competent authority and put into force; (ii) completed the first module of the tourism management activities set forth in the respective ITDP; (iii) established the Municipal Environmental Council according to existing legal procedures and requirements; (iv) in case infrastructure requires municipal O&M, that the municipality complies with the criteria set in federal programs for administrative and fiscal management, or are participating in such programs; (v) the infrastruc-

ture to be financed complies with the specific conditions and technical criteria established in the Operating Regulations; and (b) the necessary measures were adopted by the responsible institution to correct environmental problems identified in the respective ITDP as resulting from PRODETUR/NE-I (¶3.26).

iii. Six months after the loan signature, the BN will present the Terms of Reference for the investment bank or specialized firm that will prepare the feasibility studies and bidding documents for construction, operation and maintenance of convention centers (¶3.38)

iv. Thirty months after loan signature or when one half of the Program resources have been committed, whichever comes first, a midterm evaluation will be performed on the basis of information to be provided to the Bank three months prior to the review (¶3.65).

v. Within the first quarter of each calendar year and for three years after construction of the last work, the borrower will submit annual reports regarding O&M for works and goods, broken down by state (¶3.64).

vi. The BN will submit annual audited reports of the operative and financial status of the Program. BN will also submit its annual audited financial statements and the annual financial statements of the Program (¶3.67).

vii. BN will finance an "ex-post" evaluation (¶3.68).

Poverty-targeting and social equity classification: This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies as a poverty targeted investment (PTI) (see ¶4.31). The borrowing country will be using the 10 percentage points in additional financing (see ¶4.31).

Exceptions to Bank policy: None

Procurement: Bank procedures will be used. For consulting contracts that exceed the equivalent of US$200,000, procurement of goods valued at the

equivalent of US$350,000 or more, and construction of infrastructure in amounts equal to or above the equivalent of US$5,000,000, international competitive bidding will be required (¶3.43). The Bank's review of bidding procedures and documents will be performed "ex-post" when the contracts involved are under certain amounts (¶3.44). Price may be used as a criterion for selection of consulting services as per document GN 1679-3 (¶3.43).

I. FRAME OF REFERENCE

A. Socioeconomic situation of the Northeast Region

1.1 The Northeast[1] has the lowest per capita income of Brazil's five regions (US$1,431). This per capita income is 46% of the national average and 20% lower than the per capita income of the second poorest region, the North[2]. Fifty-five per cent of the Northeast's population is below the poverty line. The region's accumulated growth for the most recently reported period, 1985 to 1997, is the country's second slowest, 37%. Social indicators for the region are also below the national levels. Average life expectancy is 62 years, versus 68 years nationally; illiteracy stands at 34% for the Northeast, nearly twice the national average of 16.7%; and infant mortality, at 75 per thousand births, is more than twice the national average.

1.2 The Northeast has been affected by chronic drought and water scarcity and has long been the special focus of the Federal Government and specialized institutions. In the early 1990's the Banco Nacional de Desenvolvimento Econômico e Social (BNDES) undertook studies to determine the economic activities in which the Northeast had competitive advantages. It concluded that the most viable opportunities were in irrigated agriculture, textile production, ornamental stone mining, and tourism. Tourism was selected because of the region's abundant, low cost labor and scenic and cultural resources[3].

B. Development of tourism in Brazil and the Northeast

1.3 Brazil is the world's eighth largest economy and ranked as the world's thirtieth most important destination for international tourism. Further development of the tourism industry makes economic sense: (i) the prices are internationally competitive; (ii) the national economy is highly integrated, and can provide most of the inputs used by tourism, reducing imports and leading to significant development impacts; (iii) Brazil can build on an already credible marketing image for three products: "sun and sand", nature tourism, and Rio de Janeiro; and (iv) the tourism industry's earnings will be more stable than those of many tourist economies because the large internal market make sudden drops in international visitors much less important. Forecasts for growth by World Tourism Organization and by the World Travel and Tourism Council (June 2001) are for 5% to 6% per year.

1.4 The private sector believes that short-term prospects for tourism growth are good and has been expanding rapidly, as seen by recent building activity. A 1998 study of the Brazilian market, however, suggests that tourism demand may not be as strong as expected by the private sector. This may limit long-term growth. The

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[1] The Northeast includes the states of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe and Bahia.

[2] Data for 1999 in current prices. Data from IBGE and RE1/OD1.

[3] The Northeast has 3,300 km of tropical, white sand beaches, amenable climate, unique landscape, rich folklore and cuisine, and renowned historical and cultural heritage sites.

growth of the most lucrative international markets is constrained by the programming of air traffic. Brazil is highly restrictive in its allocation of landing rights to international carriers. Direct scheduled flights to the Northeast are limited, and only recently have a few charters been permitted to fly to cities in the Northeast. In addition, Brazilian visa requirements discourage choice of Brazil as a vacation destination.

1.5 The Northeast is an emerging destination. It has comparative advantage in labor costs and attractions. Its dry climate and limited rainfall are assets for sun and sand tourism. It has fewer problems of security than competing destinations such as Rio de Janeiro. It has begun to address its problems of poor infrastructure with PRODETUR/NE-I. Between 1995 and 1999, the number of enterprises offering lodging and the number of restaurants has increased by roughly 50% and average occupancy in hotels has increased from 43.7% in 1990 to 54.0% in 1999. Since September 11, 2001 demand has been even more robust. Brazilians who usually travel abroad have switched to Northeast destinations despite heavily discounted fares to the U.S. and other destinations, and tourism from the U.S. and Europe have fallen only slightly.

1.6 The Government of Brazil also assigns high priority to the development of tourism and includes it as a priority in its Avança Brasil Program. Its goal is to increase the number of foreign tourists by 35% from 4.8 million in 1998 to 6.5 million in 2003 and to create 500,000 new jobs in the period.

C. The Northeast Tourism Development Program PRODETUR/NE-I

1.7 The Bank has supported the tourism development in the Northeast. In 1994, it approved a loan for US$400 million for the Northeast Tourism Development Program PRODETUR/NE-I (841/ OC-BR). The Banco do Nordeste (BN) was the borrower and executing agency, with responsibilities for reviewing and evaluating project proposals, providing sub-loans to the states, and supervising the execution of the projects.

1. Results of PRODETUR/NE-I

1.8 The development objective of the 1994 Program was to "contribute to the socio-economic development of the region generating new employment opportunities, higher per capita income, and increased state revenues." The loan focused on removing constraints to the growth of tourism that were posed by inadequate infrastructure and public services. These actions were complemented by investments to protect and preserve historic and natural attractions and institutional development.

1.9 The investments of PRODETUR/NE-I improved and expanded eight international airports, built or upgraded 877 km of highways and access roads, provided water and sewerage to 1,133,000 people, conserved 22 historical heritage sites, and started efforts to conserve over 70,000 ha of coastal ecosystems and protected ar-

eas. The BN estimates that the PRODETUR/NE-I investments attracted US$4 billion of private investment and will attract a further US$2 billion over the next three years as the private sector builds in areas where there is improved infrastructure. While it has been estimated that the investments have generated one million jobs, precise data are not available to attribute this increase to PRODETUR/NE-I. Available evidence indicates that most new employees for the higher skilled work came from out of the region, with the local population finding opportunities in the less skilled more seasoned work. Tourist flows increased from 6 to 12 million visitors between 1994 and 2000.

1.10 During Program preparation, three studies were developed to assess the execution and results of PRODETUR/NE-I to date: a thorough evaluation of Costa do Descobrimento in Bahia, including social and environmental aspects; an environmental analysis of projects in three states (Ceará, Rio Grande do Norte and Sergipe); and an ex-post evaluation of socioeconomic and environmental aspects for a sample of projects throughout the region. From the studies, it was concluded that PRODETUR/NE-I stimulated new investments and employment and contributed to the economic success of the region. However, the increase in tourist and migration inflows generated environmental and social problems in several municipalities that, while not overwhelming the benefits of PRODETUR/NE-I, need to be addressed.

1.11 First, tourism growth produced environmental problems such as uncontrolled settlement of people looking for jobs, private building in environmentally sensitive areas, encroachment on rainforests and mangroves, impacts on coastal reefs and other coastal ecosystems, and insufficient collection and disposal of solid waste in urban areas. These problems arose mainly due to:

a. The lack of an integrated and participatory planning process at the state level that could sequence infrastructure investments over time, given improvements in municipal land use planning and control capacity. Evaluation studies of the results of PRODETUR/NE-I demonstrated that municipalities that did not dedicate time to planning and controlling building densities along the coastline, managing impacts and setting up participative councils to deal with unforeseen problems had significant problems with uncontrolled tourism growth[4];

b. Uneven quality of project analysis by the executing agency, specifically from environmental point of view. The executing unit was experienced in engineering and works design but not in environmental analysis or tourism development. This resulted in uneven depth of the environmental impact assess-

[4] Municipalities such as those in the State of Rio Grande do Norte were in better condition for absorbing projected growth resulting from infrastructure investments. Participation in the planning process led to greater insistence that local hotel owners benefit, local population be trained and employed and that solid wastes and other pollutants be controlled.

ments among different projects. It also strained the BN's ability to oversee and provide timely guidance to the states in the preparation of studies; and

c. Weak environmental supervision capacity at all levels of the execution scheme. In some cases, the mitigation measures recommended in the environmental impact assessments were poorly applied during execution of the works. Likewise, there was a lack of specific requirements for environmental protection in many construction contracts. This was the result of limited capacity for project supervision in the BN, state executing agency and local co-executing agencies.

1.12 Second, benefits from tourism growth were not fully captured by some participating municipalities because of their limited fiscal management capacity. Few municipalities took advantage of the possibility to increase their tax revenues and use them to benefit their permanent populations. In addition, the activities and emphasis placed on worker training for the local population so they could take advantage of the emerging employment opportunities brought by increased tourism were not sufficient to cover the wide range of needed services and provide the minimum quality that tourist demand. As a result, specialized labor demand was covered with out-of–region workers.

1.13 The evaluations also concluded that tourism development is a complex undertaking involving numerous stakeholders and areas of activity. The executing agency and overall execution scheme of PRODETUR/NE-I was not adequate to address this complexity. In 1996 the BN was reorganized and project review and supervision was decentralized, adding to the difficulties of not having a sufficient number of core specialists for project analysis and supervision. The execution structure did not include systematic reviews of the program that included the broad range of stakeholders, nor provide opportunities to respond to the dynamic changes that tourism development brought.

1.14 Though not directly tied to PRODETUR/NE-I, the BN established a number of tourism councils within its own structure that focused on mobilizing private investment and participation in tourism. The Councils meet regularly, have a formal structure and rules, and an established membership that varies by council. As the impacts of tourism have become clearer, the scope of discussions and membership has broadened.

2. Lessons learned

1.15 The first lesson of PRODETUR/NE-I is that tourism development can be an effective strategy to: (i) attract national and international private investment in an amount greater than the public investment; (ii) increase tourist visits; and (iii) generate employment. *The Program will continue contributing to the economic development of the Northeast of Brazil by promoting investments in a key sector with competitive advantages in the region: the tourism industry.*

1.16 A second lesson is that careful planning and sequencing of investments is needed to minimize negative environmental impacts associated with substantial tourism growth and immigrations inflows. Municipalities must have adequate land use planning and control before executing infrastructure investment projects, especially in new tourist areas. *The Program will require structured and integrated planning before approving investments. It will also consolidate and complement first-stage investments before going on to new areas*

1.17 A third lesson is that tourism projects require full involvement of stakeholders in the planning process. Joint participation by the public sector (state and municipal), 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. Effective participation requires the use of permanent local councils comprised by municipal authorities, the private sector, civil society and private citizens. Permanent councils are needed because of the time required to develop, discuss, and sequence the actions of plans. *The Program requires that standing tourism councils review, discuss, and prioritize all development actions in the tourism development pole.*

1.18 A fourth lesson is that tourism development programs need an execution scheme that responds to the complex dynamic nature of tourism development, and that projects need to be evaluated by a highly qualified core of technical experts in areas of tourism planning and socio-environmental analysis, as well as tourism development, economics and finance. The core skills need to be available at the executing agency, which is responsible for ensuring the quality of project designs. *The Program will include an execution structure that incorporates the needs for careful planning and participation in systematic reviews of the Program's progress. The executing unit will be comprised of highly qualified professionals, and a specialized firm will assist the BN in the assessment of project feasibility studies.*

1.19 The fifth lesson is that tourism development programs should balance investment in infrastructure with investment in strengthening the capacity of municipalities to capture the benefits that result from increased tourism flows. *To address problems caused by the limited capacity to manage and benefit from tourism flows, the Program will emphasize strengthening municipal administrative and fiscal and human resources to manage tourism flows and operate and maintain municipal investments*.

D. The Bank's country strategy

1.20 The Bank's country strategy for Brazil establishes four priorities. First, Bank actions should foster and deepen reform and modernization of the State at federal, state, and municipal levels. Second, it should support efforts to make Brazilian products more competitive and to improve their access to markets. Third, it should support efforts to reduce social inequities and poverty giving priority to the education and health sectors, including building partnerships with community and

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

1.21 The proposed Program is fully consistent with all pillars of the Bank's strategy. Tourism development is a specific priority of the country strategy, and the proposed Program supports government efforts to reduce social inequities and poverty by generating employment and increasing incomes. It provides transportation and sanitation infrastructure that will benefit local populations. It increases the capacity of municipal governments to regulate and financially manage public services that benefit both the tourist and host populations. Finally, it leads to improved land use policies that will benefit the environment.

E. Conceptualization of the Program

1.22 During analysis, the Bank evaluated a number of alternative program structures and execution mechanisms. Given the complex nature of tourism development and the need to incorporate the lessons learned from PRODETUR/NE-I, as well as the institutional constraints in the region, the proposed Program and execution mechanism represents the best alternative under the current conditions. The Bank recognizes the potential difficulties that may arise during execution, and has included mechanisms to closely follow the Program's progress and adjust as needed.

1.23 The Program will continue support for the tourism sector in the Northeast region of Brazil by financing infrastructure investments necessary for an adequate provision of public services to keep up with the expected tourism growth in the area, as well as to improve the quality of life of the local population. As in the case of PRODETUR/NE-I, it is anticipated that these public infrastructure investments will attract much greater private investment in the sector, which will contribute to the economic growth of the region, the generation of employment and the prosperity of the local population. However, the Program takes the lessons learned from PRODETUR/NE-I and moves away from isolated individual investment by establishing the mechanisms to ensure that future investments in the sector are consistent with the concepts underlying sustainable and responsible tourism. These concepts are (i) tourism poles, (ii) an integrated and participatory planning process, and (iii) adequate planning, environmental and administrative and fiscal management capacity at the local level prior to any infrastructure investment.

1.24 Tourism poles are groups of contiguous municipalities with similar or complementary tourism attractions, and a shared commitment to developing the local capacity for managing tourism flows in a sustainable manner. Tourism poles allows municipalities to capture economic and social benefits that might be lost if they acted individually. The benefits include longer stays in the area, better management of environmental spillover impacts, and a more efficient use of resources allocated to public infrastructure and marketing.

1.25 An integrated and participatory planning process facilitates the definition of priority actions and investments. The development planning process integrates the current environmental and social situation and needs in a tourism pole with a strategic approach and investment action plan to meet the potential tourist demand in the pole. A participatory approach in the planning process ensures the necessary transparency and consideration of local concerns and needs to render tourism development sustainable. The expected result of this process is a prioritization of investments and actions based on their contribution to increasing the revenue from tourism, as well as the capacity of local governments to capture part of these rents and to minimize negative environmental impacts associated with substantial tourism growth and immigrations inflows.

1.26 Based on these three concepts, the Program strategy will require that all infrastructure investments respond to an integrated development plan for tourism development poles with clearly defined geographic limits. This plan will assign priority to activities associated with strengthening tourism management capacity at the local level prior to any public infrastructure investment. In addition, the plan will consolidate investments financed by PRODETUR/NE-I prior to expanding into new areas. As part of project preparation, this strategy was applied to tourism polos in Bahia, Sergipe and Rio Grande do Norte.

II. THE PROGRAM

A. Objectives

2.1 The goal of the Program is to improve the quality of life of the permanent population of tourism poles as measured by increased employment, and increased municipal revenues to provide urban services and better environmental quality. This is to be accomplished by generating and properly managing increased income from tourism, which is the Program's purpose.

2.2 The Program intends to meet these objectives by assisting the northeastern states in implementing their integrated tourism development plans for priority tourism poles in a sustainable manner so as to attract new private investment in the sector, benefit a large number of local population, and minimize undesirable environmental and social impacts. The Program is organized according to **municipal actions** that will ensure that local governments and populations have the instruments and capacity to ensure long-term sustainable and responsible tourism development; **state actions** that will ensure that the state governments have the capacity for strategic planning and project development, for implementing awareness campaigns and training programs so the local population can benefit from tourism development, and consolidate and upgrade basic infrastructure and public services in the tourism poles; and **promotion of private investment**.

B. Description of components

1. Component 1: Strengthening municipal capacity to manage and benefit from tourism (US$65.3 million).

2.3 The component is designed to ensure that the local governments and populations will have the tools and capacity to maintain and improve the tourist attractions and the local services needed for long term tourism growth. The Program will support: (i) access to municipal administrative and fiscal management programs; (ii) municipal capacity for tourism management; (iii) solid waste management; (iv) protection and conservation of natural and cultural assets (beaches, reefs, parks, and historical sites); and (v) urbanization of tourist areas.

a) Municipal administrative and fiscal management

2.4 Technical assistance will be provided to facilitate the access of municipalities to administrative and fiscal management programs under execution, such as the Administrative and Fiscal Management Program of Brazil Municipalities PNAFM (1194/OC-BR) and the Tax Administration Modernization Program PMAT financed by BNDES in order to strengthen their management capacity. The assistance will include consulting services for institutional diagnosis studies, project preparation and the compliance with the Brazilian legislation.

b) Municipal tourism management

2.5 Technical assistance and computer equipment will be provided for the development and implementation of environmental plans and instruments necessary for tourism management, including municipal land use master plans (*Plano Diretor do Município*), urban development plans and land use legislation, zoning, building codes, monitoring systems, local tourism plans, training for municipal and local leaders in tourism management and impacts, establishment of environmental councils and of inter-municipal and municipal-state coordination mechanisms.

c) Solid waste management

2.6 This subcomponent will finance technical assistance for developing integrated solid waste management plans for tourism poles; feasibility studies and final designs for transfer stations, composting stations, recycling, final disposal sites and the closure and recovery of existing disposal sites; options and bidding documents for future private sector participation in waste collection, minimization and final disposal; institutional studies and design proposals for improving regulatory functions; and environmental education regarding solid waste management. This subcomponent will also finance works and equipment necessary for the first year's operation of sanitary landfills and other final disposal sites, mitigation of environmental and social impacts of existing sites, and the closure and recovery of existing sites.

d) Protection and conservation of natural assets

2.7 Technical assistance and training will be provided for the development and implementation of management plans for conservation units that include options for their financial sustainability and for the personnel responsible for managing protected areas. Small scale infrastructure investments needed for park and protected area management, such as education/visitor centers, access roads and fencing/boundary marking, computer and information systems equipment, and support material will also be financed.

e) Protection and conservation of cultural heritage assets

2.8 The subcomponent will finance technical assistance for feasibility studies and technical engineering designs and works for preserving and recovering historical buildings and monuments that have been declared cultural heritage by the competent authority. Small scale works to recover historical and cultural sites, such as lighting, signing, urban landscaping and localized improvements for water, sanitation, and drainage, will also be financed.

f) Urbanization of tourist areas

2.9 This subcomponent will finance civil works necessary to improve tourist areas such as waterfront areas, including coastline protection works, boardwalks, tour-

ism parking areas, public bathrooms, sport courts, lighting, small utility works, landscaping, minor drainage infrastructure, rehabilitation of streets and sidewalks, and improvements such as bicycle trails, pedestrian walkways, and other safety needs (tourism signing) resulting from increased tourism in the municipalities that comprise the tourism poles.

2. Component 2: Strengthening of state capacity for strategic planning, training and infrastructure for tourism growth (US$253.9 million).

2.10 The component is designed to ensure that the state has the planning capacity and can provide the necessary training and infrastructure for tourism development. The Program will support state actions in the following areas: (i) strategic studies, managerial information systems and training to strengthen state capacity to plan, monitor and evaluate tourist activity; (ii) awareness campaigns, (iii) employment training and skills development for the local population; and (iv) investments needed to support tourism growth in the poles, such as rehabilitation and expansion of water and sewerage systems, transportation and other infrastructure.

a) Strategic planning and project preparation

2.11 Technical assistance will be provided for: (i) a regional tourism demand study, a strategic environmental assessment of the Northeast necessary for justifying expansion into new areas and for preparation of Integrated Tourism Development Plans (ITDPs) for tourism poles; (ii) strengthening the capacity of State Tourism Secretariats and Planning Secretariats to do strategic planning and management of sustainable tourism development; and (iii) strengthening the State Executing Units to develop and implement monitoring systems, technical, environmental and socioeconomic pre-feasibility and feasibility studies of projects, as well as final designs for specific investments in municipal and state infrastructure.

b) Awareness campaigns

2.12 The program will finance technical assistance for the design and implementation of information and education campaigns regarding tourism development for the general public. Areas of interest will include developing the "culture of hospitality"; campaigns related to possible negative social impacts of influx of tourists, and how they can be mitigated (maintaining cultural identity, availability of training and other services).

c) Employment training and skills development for the local population

2.13 The principal activities to be financed will be: (i) training and certification programs for new entrants and further training programs for targeted current workers with special emphasis on youth; (ii) development of model curricula for skill standards not yet established under the existing *Sistema Brasileiro de Certificação*

da Qualidade Profissional para o Setor de Turismo[5]; (iii) development of training programs for industry trainers on design and delivery of standards-based training; and (iv) development of training programs for educators on design and delivery of education programs based on competency-based skills standards. In addition, there will be a third-party technical evaluation of the impacts of the training and certification programs, the dissemination of results and lessons learned via published reports, internet web sites and series of regional seminars, and the development of a strategic business plan for broader implementation and long-term sustainability.

d) Potable water and sanitation

2.14 This subcomponent will finance: (i) studies and technical assistance for improving the institutional and financial viability of the public entities responsible for provision of potable water and sanitation in the tourism poles, including the incorporation of the private sector in the provision or in the management of the service; and (ii) rehabilitation and construction of the water and sanitation works (distribution and collection systems, sewers, wastewater treatment plants, outfalls, house connections and plumbing, water meters, etc).

e) Infrastructure works

2.15 This subcomponent will finance (i) rehabilitation and recovery of existing roads, bridges, and ferry crossings, including correction of environmental liabilities and urban interference resulting from investments in PRODETUR/NE-I; (ii) traffic control safety and signing equipment; and (iii) construction of new roads and transportation infrastructure needed to attend the expected tourism growth based on regional demand studies. Likewise, the subcomponent will finance the following activities for improving air transportation: (i) rationalization, maintenance, rehabilitation, remodeling or expansion of existing airports and their aerial navigation and safety systems; and (ii) construction of new airports and their aerial navigation and safety systems. The component will also finance up to US$20 million (US$12 million Bank financing, US$8 million counterpart) for market feasibility, design studies and construction of convention centers.

3. Component 3: Promotion of private investment (US$20.3 million)

2.16 This component will finance: (i) training seminars and workshops targeting small and medium size local travel and tourism business owners, as well as NGO leaders in the areas of basic tourism management, quality control, labor certification, tourism marketing and promotion, as well as sector organization; and (ii) consulting services for the preparation of comprehensive marketing plans and campaigns that will promote the main tourist attractions of tourism poles.

[5] The skill standards and certification system was developed by the Instituto de Hospitalidade with the support of a MIF operation (ATN/MH-6050/BR).

C. Cost and financing

2.17 The total cost of the proposed program is estimated at US$400 million including financial and supervision costs. Table 2.1 presents the distribution of costs by source of financing and category of investment.

Table 2.1
Projects Costs

Category	BID/OC	Local	Total	%
1. Administration and Supervision	**4,250**	**10,750**	**15,000**	**3.8%**
1.1 Executing Unit	0	10,000	10,000	2.5%
1.2 External Technical Review	4,250	750	5,000	1.3%
2. Direct Costs	**232,000**	**107,500**	**339,500**	**84.9%**
2.1 Component 1: Municipal Actions	32,650	32,650	65,300	16.3%
2.1.1 Fiscal Management	995	995	1,990	0.5%
2.1.2 Tourism Management	6,610	6,610	13,220	3.3%
2.1.3 Solid Waste Management	7,545	7,545	15,090	3.8%
2.1.4 Natural Resources Protection	5,000	5,000	10,000	2.5%
2.1.5 Cultural Heritage	5,000	5,000	10,000	2.5%
2.1.6 Urbanization of Tourist Areas	7,500	7,500	15,000	3.8%
2.2. Component 2: State Actions	184,150	69,750	253,900	63.5%
2.2.1 Strategic Planning	8,150	8,150	16,300	4.1%
2.2.2 Awareness Campaigns	3,000	2,000	5,000	1.3%
2.2.3 Employment Training	16,000	2,800	18,800	4.7%
2.2.4 Water and Sanitation	76,700	34,050	110,750	27.7%
2.2.5 Infrastructure works	80,300	22,750	103,050	25.8%
2.3 Component 3: Promotion of Private Investment	15,200	5,100	20,300	5.1%
2.3.1 Training Seminars and Workshops	6,100	2,050	8,150	2.0%
2.3.2 Marketing Plans and Campaigns	9,100	3,050	12,150	3.0%
3. Other Costs	**1,350**	**250**	**1,600**	**0.4%**
3.1 Monitoring and Evaluation	1,100	200	1,300	0.3%
3.2 Financial Auditing	250	50	300	0.1%
4. Financial Costs	**2,400**	**41,500**	**43,900**	**11.0%**
4.1 Interest	0	36,700	36,700	9.2%
4.2 Credit Commission	0	4,800	4,800	1.2%
4.3 FIV	2,400	0	2,400	0.6%
TOTAL	**240,000**	**160,000**	**400,000**	**100.0%**
%	60%	40%	100%	

2.18 Administration and supervision costs are based on estimates of the level of effort that will be required by the BN, the states and a specialized firm for external technical review for reviewing 11 ITDPs and the associated number of specific projects included in their respective action plans, as well as the experience from PRODETUR/NE-I. Monitoring and Evaluation costs are based on preliminary terms of reference for the mid-term and final review, and for setting up the ex-post evaluation system.

2.19 The project costs are based on a review of the preliminary costs for three ITDPs (Bahia, Sergipe and Rio Grande do Norte) and their action plans, a sample of specific project viability studies from each ITDP representing the components of the

Program, the execution capacity of the BN and the states; based on the PRODEUTR/NE-I experience, and the debt capacity of the participating states. Cost estimates for Component 1 are based on detailed analysis and plans developed for nine municipalities from the three poles, representing the range of municipalities likely to participate in the program, and unit cost estimates for technical assistance based on the experience of PENAF-M and PRODETUR/NE-I. Cost estimates for Component 2 are based on institutional strengthening plans developed for the State Secretaries of Tourism and State Executing Units in Rio Grande do Norte and Sergipe, detailed terms of reference and time requirements for the regional demand study and strategic environmental assessment, and costs for feasibility studies prepared for PRODETUR/NE-I. Employment training and skills experience programs were prepared for the three poles, based on unit costs of similar training programs financed by the Bank for the Tourism sector. Component 3 is based on specific training and seminar projects developed for the three poles and costs of similar training and campaigns that have been carried out by EMBRATUR in the past.

2.20 Three ITDPs have been reviewed and are being revised to incorporate Bank comments. Terms of reference for consulting services, including specialized firms, and technical training have been reviewed, and are being finalized. The basic models and procedures for developing the institutional strategy components have been developed and tested in three tourism poles. The results have been incorporated as technical annexes to the Operating Regulations (OR). Viability studies have been reviewed for 40 specific projects from the three tourism poles used as a sample for analysis. The draft documents for establishing the tourism councils have been reviewed and are being revised on the basis of Bank technical review.

2.21 The Bank will finance 60% of the cost, the states 20%, and the Federal Government 20%. The Program will recognize up to US$32 million of private sector investments as local counterpart in urbanization of tourist areas, potable water and sanitation, and roads and transportation infrastructure, as long as the investments are part of the priority actions of the approved ITDP and comply with the Program Operating Regulations. The loan will have the following conditions: (i) variable interest rate; (ii) credit commission of 0.75% of the amount not disbursed; (iii) contribution of 1% of the loan amount for Supervision and Inspection; (iv) disbursement period of 5 years; (v) grace period of 5 years; and (vi) amortization period of 25 years and (vii) denomination in United States dollars from the Single Currency Facility.

III. PROGRAM EXECUTION

A. The borrower and executing agency

3.1 The Banco do Nordeste will be the borrower and executing agency of the operation. The BN will provide sub-loans to the states, under the same financial conditions as the IDB loan to the BN, plus a 2.5% margin to cover administrative costs, project analysis, supervision and monitoring. The states will assume exchange rate risk.

3.2 Participants of the Program will include the nine states that participated of PRODETUR/NE-I (Alagoas, Bahia, Ceará, Maranhão, Paraíba, Pernambuco, Piauí, Rio Grande do Norte and Sergipe), as well as the northern portions of the states of Espírito Santo and Minas Gerais.

B. Execution scheme

1. Overview

3.3 The Program's execution scheme has three levels: (i) Central, where the management team of the BN is located with the participation of the Ministry of Sports and Tourism (MET); (ii) State, where executing units in each of the states are located; and (iii) Local, where participating co-executors (municipalities, water and sanitation companies and state agencies) and Tourism Councils, comprised of representatives of federal and local governments, local tourism industry and civil society, are located.

2. The central management team of BN

3.4 As the executor of the Program, the BN will be responsible for the overall coordination, administration, orientation, monitoring and evaluation of the execution. The Central Management Team (CMT) will be the direct liaison with the state executing units, the MET and participating co-executors will be the sole counterpart of the Bank. The CMT will have the following operational responsibilities: (i) coordinate the activities of the Program's co-executors in compliance with the Program's Operating Regulations (OR); (ii) verify the fulfillment of the conditions of sub-borrowers to access Program's resources; (iii) evaluate and submit the Integrated Tourism Development Plans (ITDP) and specific projects to corresponding levels of the BN for approval; (iv) develop and disseminate model bidding documents and terms of reference for works, goods and consulting services; (v) perform the technical and environmental supervision of projects and prepare the corresponding executing progress reports; (vi) manage the monitoring and evaluation system of the Program; (vii) supervise and approve bidding/procurement processes; (viii) present annual consolidating executing progress reports, semi-annual environmental audits on infrastructure projects, annual consolidated maintenance reports, and an ex-post evaluation document to the

Bank; and (ix) be responsible for the monitoring of all contractual clauses and conditions established in the OR.

3.5 In addition, the CMT will be responsible to the Bank for (i) keeping adequate accounting and financial records that can properly identify sources and uses of the Program's funds from other resources managed by the BN; (ii) preparing and presenting disbursement requests and appropriate justifications for eligible expenses; (iii) preparing and presenting consolidated audited financial statements of the Program to the Bank; (iv) presenting reports on the use of the Revolving Fund every six months; (v) authorizing the transfer of resources to the state executing units through the render of accounts; and (vi) opening and keeping of a specific bank account for the administration of loan resources as well as account records for counterpart resources.

3.6 To fulfill its duties, the CMT will have a minimum full-time personnel structure[6] comprised of a General Coordinator, who will be a senior professional with experience as a regional planner. He will be responsible for the overall operational coordination of the Program and will ensure that all activities of the Program are integrated and consistent with its objectives; an administrative/financial specialist, a professional with degree in finance, accounting or business administration and experience in accounts management; a project specialist, an economist or engineer with a specialization in economics and experience in project preparation and evaluation; a procurement specialist, a professional with experience in drafting bidding documents and technical specification, and administrative bidding award processes; and a social-environmental specialist, a professional with a degree in environmental sciences and experience in environmental assessments. The General Coordinator will respond directly to the Superintendent of Operations of the BN. The General Coordinator and all specialists will be professionals with at least five years of relevant experience. **Prior to first disbursement of loan resources, the Borrower must present evidence that the General Coordinator and the four specialists that will form the CMT have been appointed and that their qualifications meet the above-mentioned criteria.**

3.7 A specialized firm will be hired to assist the CMT during the execution period of the Program in the following tasks: (i) perform the technical, socioeconomic and environmental analysis of ITDPs and projects prior to approval and train the technical staff of the CMT; (ii) perform independent periodic environmental audits of projects during execution; and (iii) evaluate the overall impact analyses of the Program with the CMT. The firm will be hired by international public bidding based on Terms of Reference agreed upon with the Bank. **Prior to first disbursement of loan resources, the Borrower must present the shortlist of firms in accordance with the Bank's selection process.**

[6] The current execution of PRODETUR/NE-I is under the responsibility of the Superintendent of Operations, who has access to operational staff to attend to the needs of PRODETUR/NE-I. However, neither the Superintendent nor members of the staff are assigned full-time to PRODETUR/NE-I (see ¶1.13).

3.8 The CMT will be assisted by decentralized teams to ensure more direct and timely contact with the state executing units. These teams will be established in eight state agencies of the BN and will be comprised of a coordinator, who will respond directly to the General Coordinator of the CMT, and will be responsible for technical guidance to the state executing units and operational matters. Two full-time professionals with five years of relevant experience will also be part of each team: an engineer specialized in environmental inspection that will perform the periodic field visits to supervise works execution and a financial specialist, who will be responsible for monitoring flow of disbursement information and assisting the CMT's financial responsibilities at this level.

3. The Ministry of Sports and Tourism (MET)

3.9 The MET will coordinate with the BN and the states all the activities and processes related to the timely provision of the federal government's counterpart to the Program. The MET will designate a Program coordinator and will be supported by a small coordinating unit, which will have the following responsibilities: (i) coordinate the provision of federal counterpart; (ii) manage the bidding and contracting out, with federal counterpart, of the regional demand and strategic environmental assessment studies; (iii) coordinate tourism data collection with the states based on the information systems to be established; (iv) support tourism research at the state level; (v) supervise and coordinate Programa Nacional de Municipalização do Turismo (PNMT) activities in the municipalities of the tourism poles; (vi) coordinate tourism poles marketing plans with the Brazilian Institute of Tourism (EMBRATUR); (vii) participate in regional and state tourism seminars to be organized and carried out during execution; and (viii) provide technical assistance to the states and BN in tourism development planning. The participation of MET will be formalized through an agreement with the BN. This agreement will set forth obligations, federal counterpart responsibilities and the establishment of a Coordinating Committee that will follow-up the allocation of these resources to municipalities and states in the Program. **Prior to first disbursement of loan resources, this signed agreement between the MET and the BN must be submitted to the Bank.**

4. State Executing Units

3.10 The State Executing Units (SEUs) are co-executors of the Program. The SEUs will be the primary contact at the state level for the Program, and will be responsible for Program execution for the state. Responsibilities of the SEUs include: (i) preparation of the ITDPs for each tourism development pole, according to the terms of reference in the OR, and present them to the Tourism Councils for discussion and validation; (ii) provide guidance to participating co-executors in the Program about eligibility criteria of projects established in the OR and monitor the preparation and technical execution process of projects; (iii) forward all project documentation, including that related to procurement, to CMT for approval; (iv) prepare and present works and equipment maintenance reports to CMT; (v) implement a database for supervising the physical and financial execution of pro-

jects, as well as for monitoring and evaluating achievement of the Program's development indicators at the state level, and provide annual execution progress reports to the CMT and MET; and (vi) keep the participating co-executors and civil society in the state informed of project results and advances during execution.

3.11 The SEUs also will be responsible for: (i) maintaining adequate financial and accounting records related to the management of Program funds, which should permit to identify the sources and uses of funds according to the Bank's requirements; (ii) maintaining adequate internal control procedures; (iii) rendering accounts to the CMT with respect to the preparation of disbursement requests and financial statements of the Program; (iv) maintaining specific bank accounts for the Program for the appropriate financial management of resources; and (v) keeping an adequate register of proving documents for eligible expenses of the Program for any eventual inspection by Bank personnel and/or external auditors of the Program. In order to do this, the SEU will take necessary provisions to ensure adequate record management and internal control procedures of other participating entities under their responsibility.

3.12 The SEUs will have a core staff consisting of a state general coordinator, who will report directly to the designated representative, responsible for tourism or planning in the state. In addition, each SEU will include a project specialist, an administrative-financial specialist, a legal assistant, and an operational specialist. The core staff would have access to specific technical expertise in the various areas supported by the Program via short-term consultancies that will assist them in their duties. **Formal establishment of the SEUs for Bahia and Sergipe, the two states with ITDPs developed during project preparation, is a condition prior to first disbursement of loan resources.**

5. Participating co-executors

3.13 The participating co-executors are the specialized agencies in each state that will be responsible for directly contracting and supervising the works, and acquisition of goods and consulting services, according to their sector responsibilities. The participating co-executors and their areas of co-executing responsibilities are:

a. Municipalities: administrative and fiscal management, tourism management, solid waste management, urbanization of tourist areas, preservation and conservation of natural and cultural heritage assets.

b. State Tourism Secretariats and State Planning Secretariats: strategic planning and project preparation.

c. Water and sanitation companies: potable water and sanitation.

d. State agencies: roads and other transportation infrastructure, establishment of conservation units.

3.14 The functions of participating co-executors include: (i) prepare technical feasibility studies and final designs of projects and submit them to the SEU; (ii) prepare terms of reference for contracting consulting services and technical specifications for acquisition of equipment and for contracting works; (iii) carry out bidding processes and prepare contract agreements; (iv) approve interim and final reports of consulting services contracted out, as well as ensure the final reception of works and goods according to signed contracts; (v) forward technical and environmental supervisory reports to the corresponding SEU; and (vi) prepare invoices and certificates of completion of works and services as well as submission of corresponding documentation to the SEU.

3.15 Municipalities will appoint a Program coordinator who will act as a liaison between the municipality and both the SEUs and MET. The coordinator will articulate the project planning process for the Pole as well as the execution of components and activities directly related to municipal competencies. This coordinator will report directly to the Prefect or one of the key municipal secretariats involved in the Program (Tourism, Planning or Environment).

6. Tourism Councils

3.16 Existing Tourism Councils will be strengthened and new ones, as needed, will be established for each tourism pole, and will be the structured mechanism to ensure participation of the stakeholders and civil society. The Councils will provide the forum for agreeing upon the tourism strategy for the pole, as well as the priorities within the pole. The Councils will (i) discuss, recommend modifications and ratify the ITDPs, the projects that comprise them, and the priority of each; (ii) contribute to the process of reviewing and updating the Plans; (iii) be the means for disseminating results and actions of the Program to the local population; and (iv) facilitate adequate consultation with affected and interested parties during execution and monitoring processes.

3.17 The Tourism Councils will have balanced representation between the public and the non-governmental sectors. The public sector will be represented by municipal (20% of the membership), state (20%) and federal entities (10%). Municipal representation will rotate among the municipalities comprising each pole to ensure that all participate directly in the council. State interests will be represented by at least the Secretaries of Tourism, Environment, Planning or Culture, in addition to the State Attorney General (*Ministério Público Estadual)*. The private sector will be represented by members of the local travel and tourism industry (25%). The non-governmental sector (25%) will be represented by members chosen from (i) the civil society, including environmental and social organizations, and community associations; and (ii) academic community. The expected size of a typical council is 36 members. **Prior to first disbursement of loan resources, Tourism Councils will be established for Costa do Descobrimento, Bahia, and Costa dos Coqueirais, Sergipe.**

7. Coordination

3.18 In order to maintain coordination of execution of the Program, the BN will organize and hold *Seminários Regionais de Integração e Acompanhamento*, with participation of the CMT, the MET, the SEUs and representatives of the Tourism Council. These meetings will be held semi-annually and will be an opportunity to discuss and harmonize procedures, raise and resolve execution and technical issues related to the Program, including suggestions for improving execution, as well as provide opportunities for sharing experiences and best practices between the SEUs. The SEUs will organize similar seminars at the state level, to be held quarterly, with participation of the participating co-executors and the tourism councils, with the same objectives.

C. Program planning and project cycle

3.19 The Operating Regulations detail the requirements for the Program planning and project cycle. The cycle starts with each state meeting the administrative and fiscal eligibility requirements and establishing the institutional structure for the Program. The planning process includes the establishment of the Tourism Poles and the development and approval of the ITDP. Once the ITDP is approved, the state is eligible for loan resources of the program, and the project cycle begins. The state will take out sub-loans for a group of projects drawn from the ITDP action plan. Infrastructure investments will be conditioned on meeting specific criteria. Box 3.1 summarizes the planning and project cycle, and Table 3.1 presents the institutional responsibilities for each step.

Box 3.1 Program Planning and Project Cycle

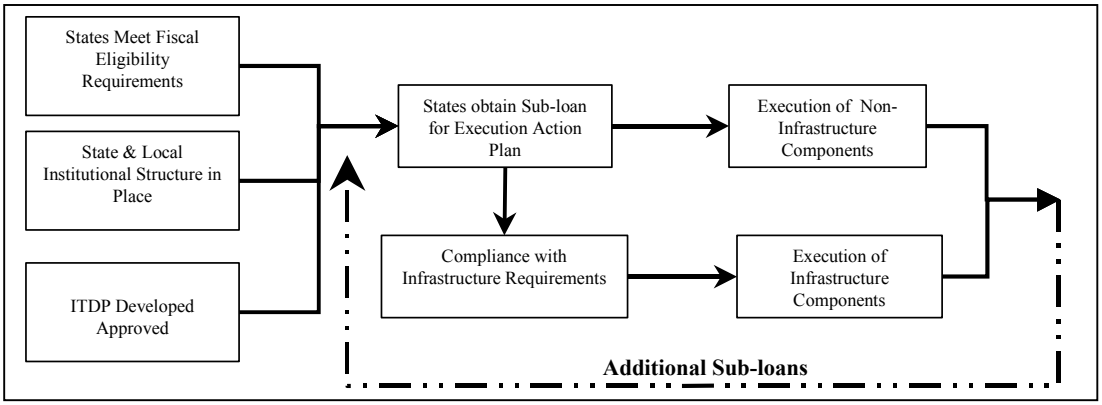

Table 3.1
Institutional responsibilities by Program cycle

I. Institution	II. Program Cycle		
	Preparation and Analysis of ITDP and prioritized action plan	Execution of ITDP action plan projects and activities via sub-loans	Program Monitoring and Evaluation
CMT	- provide orientation to technical requirements of Operating Regulations - review, comment and approve ITPD, with support from specialized firm - present approved ITDP to Bank for no objection	- review and approve sub-loan agreements - review and approve project feasibility studies with support from specialized firm - orient and supervise bidding, procurement process - maintain financial and accounting system	- manage program monitoring and evaluation system and reports - hold periodic regional seminars on Program
MET	- provide orientation to national tourism policies - provide federal counterpart resources for ITDP development - review and comment on ITDP	- coordinate provision of federal counterpart - coordinate marketing plans with EMBRATUR - supervise and coordinate PNMT activities	- coordinate tourism data collection - support tourism research at the state level - participate in regional and state tourism seminars
SEU	- prepare ITDP - consult with municipalities, tourism council and affected public - present ITDP to BN CMT for review and approval	- present proposals for sub-loans based on approved ITDP action plan debt capacity of state - provide guidance to co-executors in bidding, procurement, financial records - maintain financial and accounting system	- manage program monitoring and evaluation system - participate in regional tourism seminars - hold periodic state seminars on Program
Participating co-executors	- provide input to development of ITDP	- execute projects and activities according to responsibilities and action plan	- provide inputs to monitoring and evaluation system - participate in state tourism seminars
Tourism Councils	- orient development of ITDP regarding local interests and concerns - review, approve of ITDP prior to submittal to BN CMT	- accompany and review progress in implementing ITDP action plan - faciliate consulation with local population	- participate in regional and state tourism seminars - disseminate results to general public - faciliate consulation with local population

D. Operating Regulations

3.20 Program execution and administration will be guided by the Operating Regulations (OR). Technical annexes also have been prepared to guide executors to develop and analyze technical, economic and socio-environmental aspects. Such annexes include eligibility criteria and requirements for socio-environmental and socioeconomic assessments, basic terms of reference for studies, as well as detailed procedures and steps to prepare, license, bid, contract and supervise a project. Technical eligibility and evaluation criteria for each component and subcomponents will be annexed as an integral part of the OR. **Approval of the Operating Regulations acceptable to the Bank by the BN and put into effect is a condition prior to first disbursement of the loan.**

1. State eligibility criteria

3.21 For sub-borrowers to be eligible for loan resources for a tourism pole, evidence of compliance with the following conditions must be presented to the Bank:

a. Evidence that the sub-borrower complies with the conditions set forth in the Brazilian legislation for contracting the sub-loan.

b. The sub-borrower complies with the counterpart requirement set forth in Article 4.01 (c) of the Bank's contractual General Conditions.

c. The establishment of the SEU with the appropriate personnel, and the necessary financial and accounting systems (¶3.11).

d. The establishment of the Tourism Council of the Pole, whose action plan will be financed by the sub-loan.

e. The appointment of the Program Coordinator by each municipality of the Pole (¶3.15).

f. The approved ITDP of the Tourism Pole.

g. The signature of the sub-loan contract.

2. Establishment of Tourism Poles

3.22 The states will define and prioritize tourism poles according to the Program strategy, identifying the groups of municipalities with similar or complimentary attractions for each pole, as indicated in ¶1.24. Investment and actions of the Program will begin with municipalities of Poles that benefited from, or were affected by, investments financed under the PRODETUR/NE-I to consolidate and complete all the actions necessary to make tourism sustainable and benefit the local population. Prioritization of new tourism poles and/or expansion into municipalities that did not benefit from, or were affected by, investments from PRODETUR/NE-I will be based on the findings and recommendations of the regional demand study and strategic environmental assessment that will be completed in the first year of the Program (¶3.34). For each tourism pole, an Integrated Tourism Development Plan (ITDP) will be prepared to ensure the sustainable development of the tourism sector in each of the participating states.

3. Integrated Tourism Development Plan (ITDP)

3.23 The ITDP is the technical instrument for planning, management, coordination and execution of long-term investment decisions in the tourism poles. The plans include the definition of the planning area; an economic, social, and environmental diagnosis of the pole, relevant to the Program; a critical evaluation of the provision of public services, both in terms of infrastructure and managerial capacity in state and local governments; actual and potential tourist demand estimates and

impacts; strategic approaches to meet that potential demand; and an action plan comprised of priority public and private investment needs to achieve the strategy, costs and timetable for their implementation, as well as periodic benchmark indicators. In the case of priority poles, the ITDP will include the analysis of the impacts of investments and actions financed with PRODETUR/NE-I, including the inventory of the environmental or social liabilities to be corrected. Box 3.2 summarizes the ITDP for Costa do Descobrimento.

Box 3.2. Integrated Tourism Development Plan: Costa de Descobrimento

The Pole for the Costa do Descobrimento encompasses three municipalities – Porto Seguro, Santa Cruz Cabrália and Belmonte, which benefited directly from investments of PRODETUR I. The Plan stresses that tourism has been developing in the area, and today is the main economic activity. Public investments in the pole, either through PRODETUR I or other sources, has reached US$210.8 million, while private sector has invested or plans to invest over US$ 1.5 billion, mainly large tourism developments with participation of international corporations. The area's problems and impacts, generated by the pressures of mass tourism development emphasized in the past, include environmental degradation, uncontrolled urban sprawl and intense migration of low income population from economically depressed surrounding areas. Based on the diagnostic of the area's social economic and environmental conditions, as well as the existing and potential attractions, the main strengths (e.g. pleasant climate, natural assets and historic/cultural richness) and weaknesses or risks (e.g. vulnerable ecosystems, quality of tourism services, and limited management capacity of local governments and trained local labor to supply the demand) were identified. This analysis then supplied the devising of the planning objectives and strategies for sustainable tourism development, considering the potential demand, plans for future private investments and the natural resources carrying capacity, as well as the capacity of local public sector the manage the tourism flows. The strategies include fostering more upscale tourism, meet more selective tourist demands, increase length of stays and increase income of local labor associated with tourism activities.

To achieve such goals and strategies, the plan outlines the actions and investments prioritized with the contribution of the local stakeholders, that should be implemented within the framework of PRODETUR II. The resulting Action Plan amounts investments of US$96.23 million. The first set of actions amount US$24.43 million and includes: support for modernization and strengthening of municipal management, land use plans for all three municipalities; community awareness & mobilization, professional training and capacity building for community leaders in the pole; marketing campaigns for the pole; investments for effective implementation of 5 conservation units and environmental rehabilitation; execution of 2 transportation infrastructure projects, including rehabilitation of environmental damages in existing roads; execution of 13 urbanization projects in tourist sites; execution of 8 water and sanitation projects in two municipalities; implementation of solid waste management projects for the three municipalities; and restoration of historic buildings in two municipalities.

3.24 The SEU will prepare the ITDP in consultation with affected communities, interested parties and the corresponding Tourism Council to ensure transparency and consideration of local concerns. As part of the preparation process, the SEU will establish all necessary links with, and ensure the participation of, all municipalities comprising the Pole, tourism business sector, civil society and any other group affected directly or indirectly by tourism. The plans are then submitted to the corresponding Tourism Council for discussion and validation, before being submitted to the CMT for evaluation. The evaluation process will take no more than 45 days. For the evaluation of the ITDP, CMT will be assisted by the specialized consulting firm hired for that purpose. Once evaluated, the ITDP is submitted to the Board of the BN for approval and to the Bank for its no objection.

4. Sub-loan agreements

3.25 Once an ITDP is approved, a sub-loan agreement is signed between the BN and the sub-borrower. The sub-loan will finance a group of specific projects and activities taken from the ITDP action plan. Because of debt capacity limits for each

state at the time of requesting a sub-loan, more than one sub-loan may be necessary for financing all of the priority projects and activities presented in the approved ITDP and its action plan. If the state does not have the capacity to finance all of the priority projects and activities, the municipalities within the tourism pole can also be sub-borrowers, as long as: (i) the state is in agreement, (ii) the ITDP has been approved, (iii) the states have complied with the eligibility requirements except those related to debt capacity and counterpart(¶3.21), (iv) the municipality complies with federal financial requirements for assuring the loan, (v) the proposed items to be financed are consistent with the action plan of the approved ITDP, and (vi) the municipal sub-loan complements the state sub-loan for the same tourism pole. Resources from the sub-loan agreements will be passed from the sub-borrowers to local executing entities that benefit from the Program on non-reimbursable basis. **The sub-loan agreement model will be submitted to the Bank for acceptance as a condition prior to first disbursement.** The sub-loan agreement will contain the following aspects: scope; dimensioning; costs by financing source; execution plan; financial conditions, including assumption of exchange risk; commitments to Bank procurement and contracting procedures, inspections, tariff and maintenance requirements, audits, disbursements and accounts; and the conditions prior to infrastructure disbursements in municipalities in the pole.

3.26 Prior to disbursement for infrastructure (urbanization of tourist areas, water and sanitation and roads and other transportation infrastructure), the sub-loan agreement must request the submission of evidence that:

a. Each municipality where infrastructure will be built has:

i. land use master plan (plano diretor) approved by the competent authority and put into force;

ii. completed the first module of the tourism management training activities set forth in the respective ITDP and in the municipal tourism strengthening plan;

iii. established the Municipal Environmental Council according to existing legal procedures and requirements;

iv. if the infrastructure will require municipal operation and maintenance, evidence that the municipality is complying with the criteria and indicators established in federal programs for improving administrative and fiscal management or is participating in such federal programs in accordance with the OR; and

v. the infrastructure financed complies with the specific conditions and technical criteria established in the Operating Regulations.

b. the necessary measures have been adopted by the responsible institution to correct environmental problems identified in the respective ITDP as resulting from PRODETUR/NE-I; and

5. Specific project actions

3.27 Formulation. Participating co-executors will prepare all technical documentation for priority projects, selected according to the investment schedule of the ITDP. Technical requisites will include, among others, terms of reference for studies, technical specifications for goods, and feasibility studies, final designs and bidding documents for works.

3.28 Evaluation. Once project formulation is completed, the SEU will confer the documentation and submit it to the CMT for evaluation. The CMT will have up to 30 days to review all this information from the technical, economical, social, environmental, financial, and institutional point of view. The results of the evaluation will be validated by a specialized firm (¶3.7) if the cost of project is above US$2 million or if a project is related to: (i) airports; (ii) solid waste management; (iii) historic heritage; (iv) urbanization of tourist areas; and (v) roads, water and sanitation infrastructure projects belonging to groups 1 or 2 as established in the OR. A summary of the validated evaluation reports, including the final recommendation of the firm, will be submitted to the Bank. The Bank will review and provide no objection to airport projects before final approval by BN.

3.29 Approval. Once evaluated, the CMT will submit the project for approval. Projects below R$2 million will be approved by BN's Credit Committee; above that amount, projects will be approved by BN's Board.

3.30 Supervision of works. Participating co-executors will be responsible for supervising technical and environmental compliance by construction contractors. Supervisory firms will be hired by participating co-executors for all water and sanitation projects, urbanization of tourist areas works, roads under groups 1 and 2, and airports. Supervision reports will be prepared and submitted to the SEU, which will forward them to the CMT. The CMT will perform quality control through field inspections and reporting for projects under US$1 million. To complement the oversight scheme, the CMT will hire a specialized firm for periodic environmental audits of projects (¶3.7). Project evaluation reports will be prepared and submitted to the CMT and the Bank. CMT will forward these reports to the SEUs and the state environmental authority.

E. Execution of components

1. Strengthening municipal capacity to manage and benefit from tourism

3.31 The municipalities of the tourism pole working with the SEU, will contract individual consultants or firms for the technical assistance, training, and feasibility studies that will be co-executed with the municipalities. The municipalities will

prepare the terms of reference, technical review of proposals and selection of consultants or firms, review of products and supervision, as part of their strengthening via "learning by doing". Equipment and works will be contracted by the municipality, coordinating with the SEU.

3.32 Detailed technical annexes to the Operating Regulations (Annexes C, F, H, I, J, and K) establish the requirements for specific project preparation and analysis, draft terms of reference or thematic areas for training and technical assistance, and the amount of resources per municipality for each subcomponent, based on municipality size. The technical annexes also present the specific technical, institutional, financial, economic, socio-environmental and public consultations requirements that must be met for project viability for solid waste management, urbanization of tourist areas, and protection and conservation of natural and cultural heritage assets.

2. Strengthening of state capacity for strategic planning, training and infrastructure for tourism growth

3.33 The SEUs will hire the specialized firms to prepare the ITDPs, based on the Terms of Reference included as Technical Annex A in the Operating Regulations. They will also be responsible for the bidding and contracting of technical assistance and training for the SEUs themselves, for the awareness campaigns for the tourism pole, and for the employment training and skills development. In the case of awareness campaigns and employment training and skills, the tourism councils will participate in the review of the quality of service and products, including the evaluation of impacts of the sub-component.

3.34 The MET will hire and coordinate specialized firms to conduct the regional demand study and the Strategic Environmental Assessment (SEA), which together will guide expansion into new areas for tourist development. The SEA supplements the social and environmental evaluations that will be carried out for each tourism pole and for proposed investment projects.

3.35 The SEUs will coordinate with the co-executors (State Tourism and Planning Secretariats, water and sanitation companies, state transportation and environmental agencies) to ensure that bidding and procurement procedures are followed according the Operating Regulations and the Bank policies. The co-executors will be responsible for the preparation of bidding documents, the bidding process, and the contracting of consulting services, equipment and works.

3.36 Potable Water and Sanitation: Municipalities of the poles will be eligible for loan resources to finance works provided that (i) they have an autonomous entity for service delivery (the state company or some institution that serves that specific municipality) with a positive cash flow at the time entry into the Program is requested; and (ii) the potable water service provider must demonstrate its financial capacity to provide project counterpart and comply with an appropriate tariff structure as required by Bank policy. Once the eligibility of a municipality has

been established, the projects will be evaluated according to the technical, financial, economic and socio-environmental criteria established in the technical annexes of the OR (Annex B), including proof of public consultations in the project's development.

3.37 Infrastructure works: Transportation projects must respond to the technical criteria detailed in Annexes E and G of the OR regarding (i) dimensioning based on traffic counts or other appropriate measures of demand; (ii) representing the least-cost solution, and having an internal rate of return above 12%; (iii) a cost recovery scheme for operation and maintenance; (iv) completion of all environmental assessments and public consultations; and (v) inclusion of environmental and social recommendations and respective costs in the bidding documents.

3.38 Convention centers will be eligible for financing as long as they are included as part of the priority action plan of the ITDP approved by the Tourism Council, comply with Program eligibility requirements and criteria, and cannot be directly or indirectly subsidized by the public sector for operation and maintenance. Convention centers will be managed by private operators through long terms contracts with terms defined by market conditions. Feasibility studies (including the operation and maintenance plan) and bidding documents for construction, operation and maintenance will be prepared by an investment bank or highly specialized firm, selected by international public bidding. **The BN will present the Terms of Reference and bidding documents for selecting the investment bank or highly specialized firm that will prepare the feasibility studies and bidding documents to the Bank for approval within six months of signing the contract.**

3.39 International public bidding will be used to select the firm for construction, operation and maintenance of the convention center. The Bank will work closely with the BN in supervising the bidding process and reviewing the results. In those cases where no proposals are presented for joint construction, operation and maintenance, the BN with the Bank will explore alternative forms of bidding, based on the recommendations of the investment bank or specialized firm that prepared the feasibility studies and bidding documents. In those cases where separate biddings for construction and for operation and maintenance are recommended, satisfactory evidence for the Bank of expressions of interest by more than one private company in operating and maintaining the proposed convention center will be presented prior to the adjudication of the construction contract. All bidding documents related to convention centers, particularly those for selecting the investment bank or specialized firm and for selecting the firm for construction, operation and maintenance will be reviewed ex-ante.

3.40 The bidding document for operation and maintenance and the corresponding contract will include the term of the contract that will be set based on the feasibility studies prepared by the investment bank or specialized firm. The selected firm will provide sufficient guarantees for ensuring proper operation and maintenance over the specified length of the contract without subsidies or other public support.

3. Promotion of private investment

3.41 The SEU will contract the individuals or firms necessary for the training seminars, workshops, marketing plans and technical studies for convention centers, according to the Terms of Reference and cost parameters included in Technical Annexes N, O and P of the OR. The SEUs will prepare a roster of qualified service providers and specialized entities with more than two years experience in professional training for in the tourism sector, knowledge of the *Certificação de Qualidade Profissional* methodology and available infrastructure for training. A written commitment between state and local officials and the local travel industry will be required to be eligible for resources for marketing campaigns and plans.

F. Revolving fund and counterpart

3.42 A rotating fund of 5% of the total financing will be established and will operate according to the standard procedures of the Bank.

G. Procurement of goods and services

3.43 Procurement of civil works, goods and services, and hiring of consulting services financed by the Bank's loan resources will be subject to the Procedures specified in Annex B and Annex C of the Loan Contract. The selection and contracting of consulting services financed with loan resources may follow the procedures indicated in Document GN-1679-3 that permits using price as a selection criterion for consulting services. If consulting contracts use a combination of quality and price as selection criteria, the relative weight given to the price cannot exceed 20%, and the given to the technical criteria cannot be inferior to 80%. When the estimated value of civil works and ancillary services is the equivalent of five million dollars (US$ 5,000,000) or greater, and when the estimated value of goods and services is the equivalent of three hundred fifty thousand dollars (US$350,000) or greater, the civil works or goods and services will be subject to international competitive bidding. All consulting contracts with amounts greater than two hundred thousand dollars (US$200,000) will be subject to international competitive bidding. Procurement for civil works, goods and services, and consulting contracts for amounts below the thresholds indicated above will use procurement procedures based on the local legislation if consistent with the Bank's procurement norms. The procurement plan is attached in Annex II.

3.44 Considering the number of purchases, hirings and construction works, the Bank's no objection prior to bidding will only be requested in those cases where individual consulting contracts exceed US$50,000, contracts for consulting firms exceed US$100,000, contracts for goods exceed US$350,000 and for works exceed US$3,000,000, bidding documents for civil works, goods and services and hiring of consultant services for conventions centers (¶3.39) will be reviewed "ex ante".

H. Disbursement schedule

3.45 The Program's execution and disbursement period will be five years and commitment of resources will be four years. The following table is a summary timetable of disbursements.

Table 3.2
Disbursment Schedule
(US$ million)

Year	IDB-OC	Local	Total	%
1	24	16	40	10
2	48	32	80	20
3	72	48	120	30
4	60	40	100	25
5	36	24	60	15
TOTAL	240	160	400	100

I. Recognition of counterpart resources prior to Board approval

3.46 The Bank will recognize up to the amount of US$1,000,000, chargeable to local counterpart for expenditures incurred by the States in the contracting of studies necessary for the preparation of the proposed Program. The expenditures were incurred during the 18 months prior to the date on which the Bank's loan will be approved.

J. Social and environmental management

3.47 As a result of the social-environmental evaluation of the PRODETUR/NE-II, an environmental management strategy was developed to ensure tourism development environmentally and socially sustainable. The strategy encompasses a number of tools and measures for project review supervision, evaluation and long-term monitoring, which were incorporated in the OR: (i) development of ITDP for each pole, which incorporates treatment of environmental and social impacts; (ii) establishment of the tourism councils with participation of civil society (¶3.16-3.17); (iii) a set of detailed criteria, guidelines and procedures for addressing environmental and social impacts for project development; (iv) a comprehensive scheme for environmental and social supervision, monitoring, evaluation of program components; and (v) the establishment of public information systems and mechanisms for participation of civil society (¶3.56-3.61). In addition, the subcomponent for municipal strengthening includes activities to improve land use planning and management of natural and cultural assets, as well as promote the establishment of local environmental councils (COMDEMA), as a condition prior to disbursement of resources for infrastructure (¶3.26).

3.48 The institutional responsibilities to perform these tasks are distributed among the three levels of the Program's execution scheme. The Table 3.3 summarizes the anticipated functions of each institution with regard to environmental management.

Tabla 3.3
Socio-environmental functions of Institutions

INSTITUTIONS	RESPONSIBILITIES
CMT	Oversee and enforce compliance with the OR, with regard to socio-environmental requirements for project design and execution, with technical assistance of a specialized firm for project appraisal and independent environmental auditing; coordinate mechanisms for public participation and information disclosure; monitoring and evaluation of the social and environmental benefits of the program
SEU	Implement/comply with and requirements defined in the OR, regarding socio-environmental assessments and management of investments, in coordination with the sectors executing institutions; ensure environmental licenses are timely obtained and public consultations are performed;
Participating co-executors	Comply with socio-environmental requirements defined in the OR and licenses, for project design and construction; obtain the applicable licenses according to the legal requirements; comply and enforce contractual conditions for environmental and social mitigation with the support of supervisory firms that include environmental specialists; implement all environmental programs included in PBA – Environmental Management Plans that are not the responsibility of contractors.

3.49 The investment plan that is part of the ITDP will be evaluated for potential impacts of the group of investments identified, including potential cumulative impacts. The correction of all environmental liabilities associated with investments financed with PRODETUR/NE-I will be included as priority action in the investment plan. The participatory approach to developing the Plan will ensure the necessary transparency and consideration of local concerns and needs to render tourism development sustainable.

3.50 At the project investment level, in addition to the general OR, which defines overall rules for program execution, technical annexes have been prepared for each type and category of projects, consistent with program components.

3.51 The technical annexes for the infrastructure projects, such as transportation, sanitation, solid waste management and coastal urbanization, include specific guidelines and procedures for environmental assessment and control, organized into an "Environmental Manual" attached to each technical annex. These manuals include specific guidelines for environmental and social analysis for each stage of project development, (preliminary assessment; Environmental Assessments –EA– and Environmental Management Plan –PBA), guidelines for involuntary resettlement plans, for public consultation and instructions for obtaining environmental licenses from the proper authority in compliance with local regulations. The OR will also require public consultations for all infrastructure projects, regardless of what is required by the state environmental authority.

3.52 When applicable, a Resettlement Plan is required according to the guidelines in each environmental manual, which are consistent with the Bank Policy OP710. The PBA details all environmental and social impact measures to prevent, mitigate and/or compensate for the potential impacts analyzed in previous studies, including detailed costs and specific time-frame and responsibilities for execution. All applicable environmental measures and projects for construction are then incorporated into biding documents for contractors and supervisory firms.

3.53 The OR establishes that during construction, supervision of compliance by contractors will be supported by supervisory firms to contracted by the participating co-executors, and will include as part of its technical team environmental specialists specifically responsible for supervising compliance of environmental requirements and projects established in the PBA and in the construction contracts.

3.54 For road projects under category 3, as defined in the OR, supervision of the works can be done directly by the specialized staff allocated at decentralized teams at BN, specifically designated for the task (engineer with the experience in environmental inspection) with the support from CMT.

3.55 Environmental supervision by CMT will be supplemented with periodic environmental audits of projects, according to terms of reference defined for the specialized firm assisting the CMT (¶3.7) to evaluate the performance of contractors and supervisors with regard to compliance with environmental specifications and contractual conditions for construction. Projects will be selected based on their complexity and/or history of environmental problems reported by supervision teams in the field. The project evaluation reports will be submitted to the CMT and to the Bank.

K. Public participation in execution

3.56 Public participation is an integral part of the Program, ensuring that the activities are designed and implemented to meet the long-term objectives of the operation, and to minimize the potential negative social and environmental impacts of tourism development. In some states, public consultations have taken place since 2000 within the framework of the Tourism Councils established by BN to promote tourism development in the poles.

3.57 The Program promoted public participation through strengthening the existing formal institutional structures, as well as through structures related directly to PRODETUR/NE-II. Table 3.4 summarizes how public participation is addressed in the Program.

3.58 For each tourism development pole, a Tourism Council will be established or restructured, based on the experience acquired, to provide a balanced forum for consultation, validation and monitoring of the Program within each pole as described in ¶3.17. The members of the councils will have access to all of the technical, monitoring and evaluation reports relative to activities within the pole, with

the opportunity for review and comment, as well as provide information to the local groups through their CONDEMA. Furthermore, the Program's regulations provide that each ITDP will be discussed with civil society in all municipalities in the pole (¶3.24) and each investment project be object of consultations with affected population during its development (¶3.32, 3.26, and 3.41).

3.59 The BN and the SEUs will establish public information centers and web sites to provide timely access to information about the Program. The state web sites will include the results of progress of projects and activities financed by the Program, including the indicators and benchmarks, and costs and benefits for the local population. It will also provide an opportunity and mechanism for receiving feedback, suggestions, and other forms of interaction with interested stakeholders. At the BN, the web site will be implemented to summarize and disseminate "best practices" of the components of the Program.

3.60 In order to ensure transparency and participation at the state level, the SEUs will organize and hold yearly *Seminários Estaduais de Sensibilização e Avaliação*, with wide participation of interested segments of society. The objective of the seminars will be to discuss questions related to tourism development and environment, disseminate Program actions, discuss positive and negative results and make suggestions to improve execution.

Table 3.4
Public Participation and Social Control

Level	Formal Institutional Structures		PRODETUR/NE II Structures	
	Execution	Participation and Social Control	Execution	Participation and Social Control
Regional	BN		CMT **Workshops, website and best practices**	Workshops **Public Evaluation**
State	State Secretariats **Strengthen the capacity of State Tourism Secretariats and Planning Secretariats**	State Tourism Council	State Execution Unit **Strengthen the capacity of SEU**	Tourism Council
Local	Local Administration **Master Plan** **Strengthen the capacity of Municipal Tourism Management**	Municipal Environment Council **Establishment and Strengthening**	Municipal Coordinator	

3.61 In addition, a *Forum de Acompanhamento Regional* will be established, with representatives of civil society from the all tourism councils, BN, states and the Bank, who will meet semi-annually to evaluate social-environmental impacts of the Program in the Region. As a result of these meetings, a report will be prepared and submitted to the BN and the Bank, providing feedback to coordination seminars at state and regional levels (¶3.18).

L. Program monitoring and evaluation

3.62 Permanent monitoring and supervision of the Program will be based on an internal information system established on the CMT. This system will consist of a database of core performance and socioeconomic impact indicators. **The submission of the implementation plan of the internal information system for monitoring and evaluation as well as the methodology for measuring the impact indicators is a condition prior to first disbursement.** The implementation will include reviewing and finalizing the baseline indicators of the logical framework.

3.63 The CMT will submit within the first 60 days after the end of each semester of execution a progress report regarding the status and execution of activities of the Program. The report coinciding with the end of each year of execution will include the status of completion of annual indicators described in the logical framework (Annex I) and in the following areas: (i) statistics on anticipated and actual costs of the works, the number of projects projected and executed in each sector, and the number of beneficiaries for water supply and sewerage projects, the tons per/day of solid waste treated and disposed of, the extension of roads improved, and the number of hectares benefiting from environmental and historical preservation projects; (ii) results of the institutional strengthening activities (municipal governments, state agencies, water companies, etc.); (iii) the impact of training programs on beneficiary personnel including quality enhancement of project preparation and analysis; (iv) compliance and effectiveness of environmental protection and control measures; (v) the cost recovery schemes of infrastructure investments, when applicable (vi) the results of public opinion surveys regarding satisfaction with tourism development; and (vii) an analysis of the problems encountered, the mitigation measures adopted, and programming for the following year.

3.64 To monitor the conditions of the works, in the first quarter of every calendar year, during the execution period, and for three years after construction of the last work, the CMT will submit annual reports to the Bank containing an annual operation and maintenance plan for works and goods financed with loan proceeds, broken down by state. The report is to include information on the previous year's performance and on the goods' state of repair and the local budget allocations provided to cover maintenance expenses for the next year.

3.65 Within 30 months after signature of the loan contract or when one half of the Program direct costs have been committed, whichever comes first, a midterm evaluation of Program execution will be performed on the basis of information provided

to the Bank three months prior to the review. The evaluation will be based on the extent to which the Program performance indicators have been met, review the efficiency of the planning process and project cycle, the effectiveness of information dissemination and public participation, and fulfillment of contractual obligations. Prior to start up of the midterm review, the CMT must submit to the Bank a report describing the status of the Program and in particular the points noted above as the main aims of the review. If, upon completion of the review, it is found that adjustments need to be made to the Program, the CMT will be given 60 days in which to submit to the Bank a plan to correct the shortcomings noted.

M. Tariffs

3.66 The operation and maintenance of the water and sanitation systems being financed by the Program will be carried out by the entity in charge of the provision of such services in each municipality (municipal services or state utility company in the conditions established in the concession contracts with the different municipalities). In order to ensure the operation and maintenance of the systems is adequate, the borrower will take appropriate measures acceptable to the Bank to ensure that the collections resulting from the rates for water and sewerage services will be sufficient to cover all operating costs of the systems, including those relating to administration, operation, maintenance and debt service.

N. Audits

3.67 The BN will submit annual audited reports of the operative and financial status of the Program (including audits of procurement of goods and services, construction of works, and disbursement-supporting documents). BN will also submit its annual audited financial statements and the annual financial statements of the Program. Audits will be performed by an independent firm acceptable to the Bank under terms of reference previously approved by the Bank and following the Bank's external audit requirements. Audit costs will be financed with resources from the Bank loan.

O. Ex-post evaluation

3.68 To assess both the Program's impact on the tourism sector in the Northeast, BN officials agreed to finance an ex-post evaluation of the results of the proposed operation. Accordingly, the BN will compile and make available to the Bank general data of the Program's overall impact as well as an in-depth evaluation of sample of projects agreed upon with the Bank in each sector. The midterm and final impact evaluation will be based on the indicators of the logical framework

3.69 The general information to be provided will include the following: (i) changes in local employment, measured by the number of direct jobs in hotel and restaurants in the municipalities of each pole; (ii) growth rate of municipal revenue by source; (iii) statistics on the number of domestic and foreign tourists, length of stays, and amounts spent, identifying –whenever possible- factors that influenced

those figures but were unrelated to the Program; and (iv) quality level of tourism services, measured by the number and classification of hotels and restaurants according to the *Guía Quatro Rodas* and the bath quality index of beaches in the municipalities of the poles and the level of public satisfaction with tourism development.

3.70 The following reports are planned as part of the evaluation process: (i) an initial report, prepared within 12 months of the contract signature date, will contained the initial baseline data as well as a detailed description of the system that will be used to compile and process the future data; (ii) a midterm report to be presented within 30 months of the effective date of the loan contract, which will present updated data and information on the progress achieved; (iii) an ex-post evaluation report, presented within the two years following the final loan disbursement.

IV. VIABILITY AND RISKS

A. Overall Program viability

4.1 The overall viability of the program depends on the following factors, each of which has been considered in the design of the Program: (i) the technical viability of the program concept of developing the ITDPs; (ii) the viability of individual projects that will be financed based on the action plan of the ITDPs; (iii) the institutional capacity of the key institutions involved in Program execution and beyond; (iv) the financial viability of the BN as borrower, the states as sub-borrowers, and the participating co-executors as responsible for operation and maintenance of projects; (v) socio-environmental viability of the individual projects and the ITDPs as a whole, in terms of aggregate impacts, with special emphasis on public participation.

B. Technical viability

4.2 As part of project design and analysis, poles in three states -Rio Grande do Norte, Sergipe and Bahia- were chosen as a sample for the development of ITDPs. The three ITDPs were used to dimension the scope to the Program and prepare detailed technical guidelines in the OR for accessing resources for infrastructure investments. The ITDPs were developed according to Terms of Reference that were discussed with the BN, the SEUs of each state, and the final version of which will be used to prepare the ITDPs of participating poles.

4.3 Through the development of the ITDP, the geographic focus on the tourism development pole has been maintained through the planning process, and has provided the context for prioritizing investments. The institutional investments necessary for long term sustainability, primarily strengthening municipal capacity for tourism management, as well as general administrative and fiscal management, will be started before the investments in infrastructure, especially roads and other transportation, in order to ensure that the poles will be in conditions to respond to the more complex needs of tourism. Priority is given to actions that consolidate the investments made in PRODETUR/NE-I, including addressing the induced environmental and social impacts that resulted from the less structured planning approach utilized in PRODETUR/NE-I. New areas will not be developed, according to the OR, until the actions needed to consolidate PRODETUR/NE-I have been completed, better regional demand information and on environmental impacts of tourism development are available.

4.4 The ITDPs present a balanced mix of activities within each component, that are technically feasible to respond to the particular problems of each tourism pole. The sequencing of activities responds to the technical needs. The Plan provides a consistent framework for subsequent specific investment activities through the implementation of the plan.

C. Institutional viability

4.5 The institutional scheme for execution adequately defines the functions and responsibilities of the various participants in the Program. This execution scheme promotes independent and decentralized functions of management and supervision at the higher levels and execution at the local level. Highly-experienced professionals will be hired to ensure appropriate technical and administrative capacity at each level. In addition, a specialized firm will be hired to assist the BN in performing periodic environmental auditing, socioeconomic impact analysis and technical evaluation of projects. The SEUs will have specific training and technical assistance to address the weaknesses diagnosed during project analysis. As part of the Program activities, the municipalities will receive institutional capacity building for tourism management in particular. The institutional structure also addresses transparency and participation issues that were raised during PRODETUR/NE-I.

D. Financial viability

1. Banco do Nordeste

a) Banco do Nordeste as the financial intermediary of the Program

4.6 The participation of different states in the Program and its open-ended definition – with an Operating Manual that will define, among others, which states are in an adequate position to access the Program-, calls for a borrower that either is at a higher level than the beneficiaries or is an completely different institution. Given that the Law for Fiscal Responsibility in Brazil prevents loans from being transferred from the Federal Government to the states as sub-loans, the second alternative was preferred. Therefore, the Program was designed with Banco do Nordeste (BN) as borrower, although in practice BN will be more a financial intermediary than anything, and this was taken into account in the analysis of the financial feasibility of the Program.

4.7 The BN is a corporation of indefinite duration and mixed capital. At the end of fiscal year 2000, the Federal Government had a participation of 91% of BN's paid-in capital, which implies that BN is not subject of standard bankruptcy legislation and procedures. The remaining 9% belongs to the employees' pension fund and several private shareholders. Federal Government control over BN is consistent with its high participation in the bank's capital, either through the General Assembly or by use of special privileges[7]. This control of the Federal Government over BN reinforces the idea that BN is, for the practical purposes of this Program, a financial intermediary of the Federal Government.

[7] The Chairman of the Board of Directors is appointed by the President of the Republic.

b) Main operational aspects

4.8 The mission of the BN is to contribute to the sustainable development of the Northeast Region, to promote the region's economic integration with the rest of the country, and to help reduce regional and social inequalities. In order to do this, BN has 170 branches located in the main cities of the nine states of the region, with its headquarters in the city of Fortaleza, in the state of Ceará. BN is also the administrator of the *"Fundo Constitucional do Financiamento do Nordeste*" (FNE), which is a trust fund established by the Federal Government to foster the socioeconomic development of the region. The FNE receives funds from 1.8% of all tax collections, and BN is paid a fee of 3% of the FNE portfolio, which is an important source of income for the bank.

c) Financial Situation of Banco do Nordeste

(i) Current situation

4.9 BN net income in 2000 was US$29 million, and total assets at the end of 2000 were US$4,493 million of which the loan portfolio represented approximately 89%. When the FNE is included, the loan portfolio increases to US$8,343 million, which ranks BN as the main regional development bank in Brazil. Its portfolio is composed of loans to the private sector (85%) and loans to the public sector (15%). Arrears have been increasing in the last four years and reached 27% in 2000, which is considered high when compared to similar institutions in Brazil. In the case of the FNE, by law, loans prior to December 1998 can not be considered in arrears, which makes it difficult to establish an accurate level of arrears in the overall portfolio.

(ii) Compliance with National Banking Regulations

4.10 In August 1994, the *Banco Central do Brasil* (BACEN) adopted the normative of the Basle Committee about technical ratios, loan portfolios and capitalization. As a result of this, Brazilian financial institutions must maintain a net equity of, at least, 11% of their assets after all risk considerations (namely provisions for doubtful accounts) have been taken into account.

4.11 Until 1999, BN had been maintaining a level of capitalization above the minimum required by the BACEN (the above referred 11%). Due to changes in the rules to calculate the capitalization index, making them more stringent, and especially due to the decision of the BACEN to include the FNE portfolio in the calculation, the capitalization index dropped to 7.44% at the end of 2000. Moreover, the audit report of June 2001 financial statements points out the need, under new BACEN rules, to increase the existing provisions for doubtful accounts and other contingencies by approximately US$2,100 million, well above the current values. In order to prevent a negative impact on the financial position of BN, the adjustment will take place after a capitalization by the Federal Government takes place, which is part of its Program for the Strengthening of Financial Institutions.

(iii) The Program for the strengthening of financial institutions

4.12 The Program for the Strengthening of Financial Institutions, approved by the Federal Government in June 2001, implies for BN that: (i) a capitalization of US$2,100 million will be received; (ii) a portion of FNE resources could be used to calculate BN capitalization index; and (iii) BN will not be required to make a provision of US$6,827 million for arrears of FNE loans prior to December 1998. These measures will allow BN to fully comply with the capitalization requirements required by BACEN.

(iv) Conclusions

4.13 From the practical point of view, the role of BN in the Program is of the financial intermediary for the Federal Government, since BN will be the vehicle to transfer the loan resources –through sub-loans– to the states. That is, the loan resources will not go to the general accounts of BN to be used in BN normal lending activities but they will have specific destination to the final sub-borrowers of the Program in accordance with the rules in the OR. In this sense, the financial viability of the Program is ensured by an adequate separation and control of the corresponding financial flows.

4.14 Despite the above, financial integrity of BN must be preserved and compliance with BACEN regulations must be promoted in order to ensure an adequate performance of BN as financial intermediary. Therefore**, it will be a condition prior to first disbursement that BN complies with all prudential regulations issued by the Central Bank of Brazil regarding the status of loan portfolio and level of capitalization.** Additionally, it will be a condition of permanent compliance that BN complies with all prudential regulations of BACEN regarding the status of its loan portafolio and level of capitalization. The financial audit of BN, which will be carried out in semi-annual basis, will indicate whether BN is complying or not with such regulations.

2. State Borrowing borrowing capacity

4.15 In order to assess the financial viability of the 11 states that will participate in PRODETUR/NE-II a review of the current state fiscal conditions, compliance with the federal Fiscal Adjustment Support and Restructuring Program, minimum fiscal adjustment targets for contracting credit operations, debt capacity and capacity to provide counterpart financing was carried out. This analysis was undertaken relative to two important aspects: (i) the current situation and trends regarding principal receipts and expenditures, and (ii) the evolution of current savings and the global financial situation of each state. The analysis covered 1999-2000 and looked at projections for 2001-2004. The results of the analysis indicates that since 1999 there has been a noticeable improvement in the states that would participate in PRODETUR/NE-II, and that as, as a group, state borrowing capacity will be sufficient to make the Program viable.

4.16 The states were also analyzed with regard to the federal Fiscal Adjustment Support and Restructuring Program, and meeting the six basic targets of this program (debt capacity, *resultado primário,* containment of personnel expenditures, increasing receipts not from transfers (*receitas próprias),* reform of administration and state-controlled assets, and containment of investments). Over the past two years the states are demonstrating a positive tendency. In 1999 none of the 11 states met all six targets, while in 2000 five of the states did so. Overall, seven of the states showed improvement in meeting their targets, three were stable, and only one met fewer targets in 2000 than in 1999.

4.17 In addition to the basic financial indicators and meeting the goals of the federal Fiscal Adjustment Support and Restructuring Program, the states were evaluated with regard to meeting the minimum fiscal adjustment targets for contracting credit operations, as presented in the Senate Resolution No. 78/98 and the Complementary Law 101/00 (*Dívida, Receita Líquida Real, Resultado Primario, Despesas com Pessoal, Receita Própria*). Seven of the states meet three or four of the minimum requirements.

4.18 Finally, an analysis of debt capacity and capacity to provide counterpart financing was also carried out. With regards to debt capacity, four of the states would have no restrictions relative to their best-case proposal for financing, while four more would have debt capacity, but lower that what they would propose, meaning they would be able to finance only a portion of what they would like under the Program. Eight of the 11 states would not have restrictions regarding counterpart.

4.19 Based on the current information available four states should qualify for resources in 2002 without difficulty, and another three states have a very high probability of qualifying. The combined value of loans that would be presented for the proposed Program investments (pre-feasibility) is $260 million. The remaining four states will have a more difficult time meeting the fiscal criteria for participation during the first year of execution. In order to maintain information about state borrowing capacity up-to-date during the execution of the Program, the CMT will submit to the Bank evidence of compliance of the goals in the Fiscal Adjustment Support and Restructuring Program for the previous year as a condition prior to disbursement of loan resources to the states (¶3.21).

E. Socioeconomic viability

4.20 The Program is viable from the socio-economic point of view. While it is true that the expansion of the Northeast to some extent transfers income from other tourism destinations within Brazil, the transfer is economically desirable since the Northeast is the poorest region of Brazil with per capita income only 46% of the national average. Some of the benefit, however, is not transfer as Brazil needs more capacity to meet growing internal demand, growing demand from abroad and demand from Brazilian nationals who are now substituting national destinations for foreign travel.

4.21 The method of economic evaluation gives a conservative estimate of benefits. It does not include an estimate of the economic surplus derived from the spending of foreign tourists, a legitimate benefit of the Program. Nor does it include an estimate of the economic surplus derived from the spending of national tourists, at least some of which is a benefit and not an economic transfer. Instead, the economic evaluation considers only the benefits attributable to specific works in the program, treating them solely as works of infrastructure. This approach is conservative.

4.22 As part of Program preparation, the Bank evaluated the analysis of 28 projects from PRODETUR/NE-I that represent both a range of project types and of participating states. The analysis indicated that: (i) 64% of projects had an internal rate of return of more than 12% and (ii) there were some deficiencies in the analyses, particularly in the analysis of alternatives, the methods used to estimate benefits, and the dimensioning of projects. Of the sample, 45% of the analyses were satisfactory, 45% had a least one problem, and 10% were unsatisfactory. The Bank also performed an economic appraisal of 11 priority infrastructure projects included in the ITDPs of the sample tourism poles for possible financing under the Program. The methodology used and preliminary results of this appraisal are shown in the following table. Insufficient information was found for two projects, which precluded the estimation of investment return indicators. Methodological recommendations were made to address the deficiencies during preparation and analysis, and have been addressed in the revised OR, including more precise specification of data requirements and methods to be used, and by requiring that a consulting firm review projects that are complex or have a cost over US$2 million.

Table 4.1
PRODETUR/NE-II – Sample Projects Analyzed

Project (State)	Appraisal Method	Result (US$ or %IRR)
Establishment of protected area Coroa Vermelha (BA)	Least cost alternative	$433,800
Pavimentation and drainage road Trancoso-Porto Seguro (BA)	Cost-benefit analysis	35%
Water System Santa Cruz Calabria (BA)	Cost-benefit analysis	>12%
Sewerage system Porto Seguro (BA)	Cost-benefit analysis	12%
Sewerage system Belmonte (BA)	Cost-benefit analysis	12%
Environmental protection and education Bacia do Rio dos Mengues (BA)	Least cost alternative	$316,000
Waterfront urbanization Orla de Atalia Nova (SE)	Cost-benefit analysis	>12%
Sewerage system Tibau do Sul & Praia de Pipa (RN)	Cost-benefit analysis	>12%

F. Environmental and social viability

1. Public consultations during preparation of the Operation

4.23 As part of preparation of the Program, the states in the sample – BA, RN and SE – held public meetings in all municipalities of each pole, as well as focus meetings

with municipal authorities and representatives of civil society, to discuss their preliminary ITDP. The draft plans were disclosed to the public by August 10th 2001 and meeting took place between August 29th and September 6th, 2001. Most concerns expressed during the meetings were related to inclusion of more investments in sanitation, requests for more information about projects being developed, and the need for training. The meeting also offered the opportunity to discuss the concept and structure of the program and the requirements for the municipalities to participate. The final document will be formally presented to the respective Tourism Council before being submitted to BN and the Bank for approval.

2. Social-environmental assessment

4.24 The social-environmental viability of the Program was evaluated by assessing the environmental and social impacts of the ITDPs for three existing tourism poles that need investments to consolidate sustainable tourism development. To summarize the results of these analyses, the Project Team prepared a *Program Environmental Feasibility Report*, which was translated into Portuguese and made publicly available on January 11, 2002. The report also includes the social-environmental management strategy to ensure social and environmental quality that were incorporated into the Program's design. The strategy includes quality control instruments, continuous supervision and monitoring and periodic independent auditing, and is laid out in detail in the OR.

4.25 The Program will have a number of positive environmental and social impacts from improved solid waste management, potable water and sanitation, protection of fragile areas such as beaches, coral reefs, coastal dunes and freshwater lagoons, and protection and management of Atlantic Forest and mangrove areas. Community participation in municipal planning and setting of priorities for tourism development actions will ensure that the local population will have an active voice in deciding the direction of tourism development. Community education on tourism and environment and worker training will have positive social impact. Strengthening municipalities will give the local institutions the awareness, tools, and financial resources to ensure that the benefits of tourism are captured locally, that the negative impacts, especially the indirect and induced impacts are minimized, and that local governments will be able to engage discussion with federal and state authorities for complementary programs.

4.26 The Program investments may result in direct negative impacts related to the infrastructure projects that will be financed. The Program also could result in indirect and induced negative environmental impacts, including uncontrolled development in coastal and fragile areas, spillover development in neighboring municipalities and land speculation. Increased immigration, exclusion of the local and traditional population from tourism benefits, loss of cultural identity, and increased prostitution, drug use and crime are potential indirect social impacts.

4.27 Spillover impacts will be addressed through the multi-municipality planning of tourism poles. Transparency of the planning and project execution process will

minimize land speculation. Education campaigns on tourism and its impacts will alert all stakeholders of proposed tourism investments and land speculation issues, as well as inform local communities on the means for maintaining cultural identity and on keeping crime low through community action groups, and open reporting of statistics and trends. The local population will have the opportunity to find solutions through participation in tourism planning at the municipal level. The Program will also include education and awareness campaigns for tourists, tour, and hotel operators. Specific training for employment in the tourism sector for the local population will help them take advantage of new job opportunities.

4.28 In order to minimize and mitigate the direct, indirect and induced negative impacts, the Program encompasses a multitude of actions and investments involving several sectors, actors and levels of public authority, in order to establish effective mechanisms of project environmental analysis, evaluation, supervision and long-term monitoring. These mechanisms are described in (¶3.47-3.55), and detailed in the OR established for the Program, and include rules and procedures for project development at planning, design execution and operation stages.

G. Benefits and beneficiaries

4.29 The Program supports the region's socioeconomic development efforts by promoting investments in a sector with comparative advantages: the tourism industry. The Program will directly benefit low-income populations estimated at slightly more than 1.3 million people in over 200 municipalities in 11 participating states. By using the concept of tourism poles and integrated participatory planning, the Program ensures that the expected growth of tourism in the Northeast is environmentally sustainable in the long-run and the returns can be adequately captured to benefit the permanent population of the region. The Program will require each state to prepare an integrated development plan that will assign priority to investment and actions based on their contribution to increasing revenue from tourism. Likewise, it will foster the development of state and municipal capacity to manage tourism flows by strengthening its environmental management and administrative and fiscal management functions.

4.30 The Program qualifies as poverty-targeted and social equity enhancing project. The analysis during the preparation of PRODETUR/NE-I showed that the majority of beneficiaries were low income. The ex-post evaluation studies financed by the Bank indicate that, using the available municipal-level data, over 70% of the beneficiary populations of PRODETUR/NE-I were low income, and 64% of the municipalities that benefited from investments in PRODETUR/NE-I have an Index of Human Development (IDH) below 0.500, which is considered low development in Brazil. The priorities set for the Program target the investments to those that will benefit the local population in the long term.

4.31 This Program qualifies as a PTI project based on the geographic classification criteria. With the exception of seven state capitals (Maceió, Fortaleza, João Pessoa, Recife, Natal, Aracaju and Salvador) and the municipality of Olinda in Pernam-

buco, the IDH for the 226 municipalities expected to benefit from the Program falls below the national average IDH (0.742). Because capitals are gateways to participating municipalities, investing in them is necessary for the success of the Program. The borrowing country will be using the 10 percentage points in additional financing.

H. Risks

4.32 **Expected growth of tourism demand.** Tourism demand depends upon multiple factors exogenous to the Program, including income levels and prices of similar national and international destinations with similar amenities. Although prices are still competitive in the Northeast, economic changes may affect the sector's growth rate and the economic viability of public infrastructure investments. To minimize this risk the Program will finance a comprehensive regional demand study that will provide the basis for expansion into new tourism poles.

4.33 **Fiscal and administrative management of municipalities**. Many of the municipalities in the tourism poles have weak fiscal and administrative management. Despite rapid growth in tourism, revenues from taxation scarcely increased. Many municipalities proved unwilling or unable to develop or enforce land use planning, zoning, building codes or environmental regulations. Weak administration poses the risk that municipalities will not maintain the quality of urban services necessary to sustain tourism or that they will divert revenue from uses that benefit the local population to uses that primarily benefit tourists. To manage these risks, PRODETUR/NE-II emphasizes strengthening of both fiscal and land use planning and administration. The Program will require that this management capacity be in place before new investments, particularly investment in roads, are made.

4.34 **Delays in execution.** Due to the complex execution scheme necessary to address the complex nature of tourism development, the Program runs the risk of delays in execution. The Program has a five year execution period to address this risk, and includes quarterly coordination reviews (¶3.18) to identify execution difficulties and suggest solutions.

4.35 **Limitations in public banks lending to the public sector.** Resolution 2827 of the Central Bank establishes the conditions to ensure that financial institutions do not exceed limits on the percentage of loans to the public sector by public banks such as the BN. These limits are calculated as a percentage of the lender's net revenues. The BN has reached such limits, and therefore the execution of the Program may experience delays since BN's capacity to keep lend to the public sector will depend on the growth of its net revenues. In order to by-pass this limitation and therefore mitigate this risk, the Federal Government, based on the exceptions stated in the same Resolution 2827, must provide guarantees to the BN for subloans to the states. The Procuraduria Geral is preparing a draft law that will be submitted to Congress to allow the issuing of these guarantees.

TOURISM DEVELOPMENT PROGRAM IN NORTHEASTERN BRAZIL – SECOND STAGE (PRODETUR/NE-II) (BR-0323)

LOGICAL FRAMEWORK

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL			
1. Improve the quality of life of the permanent population in tourism poles	1.1 Permanent direct employment at hotels and restaurants grows faster than it did in the period 1995-2000 in: Pole / Base in 2000 / Rate Descobrimento 3,676 12.4% Coqueirais 2,642 17.7% Dunas 6,703 9.8% 1.2 ISS revenues of the poles grow at a higher rate than in 1995-2000: Pole / Base in 2000 / Rate Descobrimento R$ 2,978,892 5.6% Coqueirais R$28,146,595 14.5% Dunas R$33,936,032 19.8% 1.3 IPTU revenue of the pole grows at a higher rate than in 1995-2000: Pole / Base in 2000 / Rate Descobrimento R$ 1,576,391 6.6% Coqueirais R$20,257,864 17.6% Dunas R$13,919,773 8.0%	1.1 Data for municipalities from the Relatório Anual de Informacões Sociais (RAIS) of the Ministry of Labor and Employment, available on the Internet. 1.2 Municipal balance sheet data. Municipal Finance Secretariats and Municipal Court of Accounts. 1.3 Data from municipalities.	

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	1.4 Percentage of the population that believe tourism benefits the community increases. Pole / % in 2002 / % in 2005 / % in 2008 Descobrimento Coqueirais Dunas	1.4 Survey of the population every three years.	
PURPOSE—PROGRAM			
1. The revenue generated by tourism in the poles grows on a sustainable basis.	1.1 Number of tourists in poles grows: Pole / 2002 / 2005 / 2010 (thousands) Descobrimento 1,037.5 1,262.2 1,535.7 Coqueirais 408.4 546.7 693.9 Dunas 1,008.4 1,219.1 1,530.9	1.1 Data from state Tourism Secretariats.	Part of the increase in municipal revenue is used to benefit the low-income population.
	1.2 Number of tourist lodgings in the poles increases: Pole / 2002 / 2005 / 2010 Descobrimento 11,609 12,100 16,900 Coqueirais 2,434 3,100 4,500 Dunas 9,085 10,400 12,100	1.2 Brazilian Hotel Association/state Tourism Secretariats.	There is political will to collect IPTU. Tourism companies hire larger proportion of their employees from among residents of the poles.
	1.3 Sustained increase in participation by high-end hotels and restaurants in the poles: Pole / # in 2002 / # in 2005 / # in 2010 Descobrimento Coqueirais Dunas	1.3 Annual publication of Guia 4 Rodas.	Development of employment opportunities in coordination with the private sector.

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	1.4 Satisfaction of tourists with public cleanliness, tourist signage, and environmental quality increases with respect to 2002. Pole / % in 2002 / % in 2004 / % in 2006 Descobrimento Coqueirais Dunas	1.4 Biannual survey of tourists.	
	1.5 Tourist satisfaction with respect to services provided by small and medium-sized tourism enterprises increases. Pole / % in 2002 / % in 2004 / % in 2006 Descobrimento Coqueirais Dunas	1.5 Biannual survey of tourists.	
PURPOSE—COMPONENTS			
1. Purpose Component 1 **Municipal actions.** Municipal governments maintain and improve tourist attractions and services that serve tourism	1.1 Satisfaction of the Association of Tourism Enterprises with public safety, cleanliness of beaches and public spaces, maintenance of public spaces, and natural and historical assets in the poles of Costa do Descobrimento, Costa dos Coqueirais, and Costa das Dunas increases.	1.1 Annual survey.	Tourism councils operate effectively.
	1.2 Waterfront urbanization regulations and waterfront construction codes enforced.	1.2 Semiannual report of NGOs hired to monitor the program.	The state effectively maintains and improves public safety.

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	1.3 Land records and assessments updated prior to 2004 in all municipalities in the poles of Costa do Descobrimento, Costa dos Coqueirais, and Costa das Dunas and staff trained by the program are billing and collecting the IPTU.	1.3 Executing unit progress report.	Macroeconomic variables remain stable. Demand for tourism in the Northeast continues to grow.
	1.4 Percentage of people in the municipalities that are aware of the role of tourism in their community increases.	1.4 Annual survey.	Job exchanges operating and updated.
2. Purpose Component 2 **Actions by the states.** The state provides the transportation and sanitation infrastructure, environmental support, and training for tourism development in the poles selected.	2.1 Water quality of the main beaches during high season remains at 2000 level or improves in the poles of Costa do Descobrimento, Costa dos Coqueirais, and Costa das Dunas.	2.1 State environmental entity (if the entity does not gather such data, this action will be included in the institutional strengthening phase).	
	2.2 The number of vehicles using program access roads increases: Road 2000 2003 2006 2009 1 2 3	2.2 Traffic counts for a week at high and low seasons every three years.	
	2.3 The hectares that were deforested, eroded, or experienced other problems as a result of PRODETUR/NE I treated and replanted prior to 2003. Pole Ha. 2001 Ha. 2003 Descobrimento Coqueirais Dunas	2.3 Semiannual report of NGOs hired to monitor the program.	

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	2.4 Percentage of labor force employed at hotels and restaurants that has lived in the pole for over five years increases in the poles: Pole / % in 2002 / % in 2004 / % in 2006 Descobrimento Coqueirais Dunas	2.4 Survey conducted in 2002 and every two years thereafter. (This is one indicator of the efficiency of the training for the local population.)	
3. Purpose Component 3 **Promotion of private investment.** The private sector invests in the expansion of capacity that caters to tourists.	3.1 Number of small and medium-sized enterprises with the "Commitment to Quality" seal.	3.1 Brazilian System of Professional Certification for the Tourism Sector.	

TOURISM DEVELOPMENT PROGRAM IN NORTHEASTERN BRAZIL – SECOND STAGE (PRODETUR/NE-II) (BR-0323)

PROCUREMENT TABLE

Procurement/activity	Total estimated amount (US$000)	Financing		Type of procurement	Method	Expected date (year/ semester)
		IDB (%)	Local (%)			
1. ADMINISTRATION AND SUPERVISION ($5,000)						
External firm and consulting services for technical review of ITDPs and projects	5,000	85	15	External firm and consulting services	ICB/LCB	1 / A
2. STRENGTHENING MUNICIPAL CAPACITY FOR SUSTAINABLE TOURISM MANAGEMENT ($65,300)						
Consulting services to support municipalities in contracting out modules for fiscal/administrative management modernization for 11+ tourism poles	1,990	50	50	Consulting services/computer and information systems equipment, training	LCB	1 / A-B 2 / A-B 3 / A-B
Modules to strengthen management of tourism and natural and cultural assets for 11+ tourism poles, including municipal master plans with respective map databases	13,220	50	50	Consulting services, computer and information systems equipment, technical equipment, mapping services, and training	LCB	1 / A-B 2 / A-B 3 / A-B
Studies and actions for comprehensive solid waste management plans and technical projects for implementation of municipal solid waste treatment systems	15,090	50	50	Consulting services, equipment and small-scale works for sanitary landfills	LCB	1 / A-B 2 / A-B 3 / A-B
Establishment of environmental conservation areas, protection works and environmental recovery and/or recovery of despoiled areas and environmental protection and recovery management plans	10,000	50	50	Consulting services, small-scale works and equipment	LCB	1 / A-B 2 / A–B 3/ A-B
Engineering plans and studies for works to recover and preserve historic heritage, including financial sustainability plans	10,000	50	50	Architectural and engineering services and works	LCB	2 / A-B 3 / A-B
Engineering plans and studies for municipal infrastructure works: waterfront urbanization, paving of roads, urban drainage, tourist signage, road systems, mooring facilities, etc.	15,000	50	50	Engineering services and works	LCB	2 / B 3 / A-B

Procurement/activity	Total estimated amount (US$000)	Financing		Type of procurement	Method	Expected date (year/ semester)
		IDB (%)	Local (%)			
3. STRATEGIC PLANNING, TRAINING, AND INFRASTRUCTURE FOR SUSTAINABLE TOURISM GROWTH ($253,900)						
Modules to strengthen the SEUs and State Tourism and/or Planning Secretariats to plan tourism development in the poles, management and monitoring of ITDP execution and future projects for the states: 11 modules.	16,300	50	50	Consulting services, computer and information systems equipment, technical equipment and training	LCB	1 / B 2 / A-B 3/A-B 4 / A-B
Tourism awareness campaigns: 11+ poles	5,000	60	40	Consulting services	LCB	2/A-B 3/A-B
Training for local permanent population, providers and educators on tourism activities in the poles	18,800	85	15	Consulting services	LCB	1/ B 2/ A-B 3/A-B 4 / A-B
Engineering plans and studies and construction of infrastructure works for water distribution and wastewater treatment	110,750	70	30	Consulting services Engineering services and works	LCB	2/B 3/A
Engineering plans and studies and infrastructure works	103,050	60	40	Consulting services Engineering services and works	LCB	2/B 3/A
4. PROMOTION OF PRIVATE INVESTMENT ($20,300)						
Seminars and workshops for business training	8,150	75	25	Consulting services	LCB	1 / A-B 2 / A-B 3 / A-B 4 / A-B
Marketing programs to attract visitors and promote private investments in tourism poles: 11 +	12,150	75	25	Consulting services Information systems equipment	LCB	1 / B 2 / A-B 3 / A-B 4 / A-B
5. OTHER COSTS ($1,600)						
Program monitoring and evaluation	1,300	85	15	Consulting services	ICB	2 / A 4/B
Financial audit of the program and borrower	300	85	15	Consulting services	ICB	1/A

NOTES:

LCB - Local Competitive Bidding
ICB - International Competitive Bidding