

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CHILE

**SUSTAINABLE COMMUNITY-BASED TOURISM DEVELOPMENT
IN CHILOÉ AND PALENA**

(CH-0172)

LOAN PROPOSAL

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CONTENTS

MAP

EXECUTIVE SUMMARY

I.	FRAME OF REFERENCE.....	1
A.	Introduction	1
B.	Tourism in Region X (Lake Region).....	1
C.	The Chiloé archipelago	2
1.	Description	2
2.	Demand.....	3
3.	Accommodation offerings	4
4.	Problems to be remedied by the proposed program	4
D.	Palena.....	8
1.	Description	8
2.	Demand.....	8
3.	Accommodation offerings	10
4.	Problems to be remedied by the proposed program	10
E.	Stakeholders	11
F.	The Bank's experience with tourism development	13
G.	Experience of the World Bank and other international organizations	14
H.	The Bank's strategy with Chile	14
I.	Conceptual design	14
II.	THE PROGRAM	15
A.	Objectives and description.....	15
B.	Subprograms.....	15
1.	Heritage restoration of Chiloé's World Heritage List churches	16
2.	Investments to further sustainable tourism development in Chiloé and Palena.....	16
C.	Program costs	19
1.	Total cost	19
2.	Cost breakdown.....	19
III.	IMPLEMENTATION ARRANGEMENTS	21
A.	Program implementation and administration.....	21
1.	Executing agency	21
2.	Subexecuting agency	21
3.	Support organizations	22
4.	Operating Regulations	22
5.	The program's Regional Coordination Committee	22

B.	Implementation arrangements for each subprogram	23
1.	Subprogram 1. Heritage restoration of Chiloé's World Heritage List churches	23
2.	Subprogram 2. Investments to further sustainable tourism development in Chiloé and Palena.....	24
C.	Procurement.....	25
D.	Disbursement period and timetable	26
E.	Revolving fund	26
F.	Recognition of prior expenditures and retroactive financing.....	26
G.	Monitoring and evaluation.....	27
1.	Monitoring.....	27
2.	Midterm review and final evaluation	27
3.	Audits.....	27
IV.	VIABILITY AND RISKS.....	28
A.	Technical viability.....	28
B.	Environmental and social viability	28
C.	Institutional viability	30
D.	Economic viability	31
E.	Risks.....	32
F.	Poverty and social equity classification	33

ANNEXES

Annex I	Logical framework
Annex II	Procurement table

BASIC SOCIOECONOMIC DATA

The basic socioeconomic data for Chile are available on the Internet at the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

INFORMATION AVAILABLE IN RE1/EN1 FILES

PREPARATION:

Credit available for tourism development in Chiloé and Palena

Barriers to Legalization for Tourist Services and the Restaurant Sector in Chiloé, Chile.
Costs of Compliance, Diagnosis and Proposals

Community-based tourist services program in Chiloé and Palena: Social and environmental viability. Diagnostic report

Community-based tourist services program in Chiloé and Palena: Environmental strategy

Community-based tourist service delivery in Chiloé and Palena. Progress report

Community-based tourist service delivery in Chiloé and Palena. Final report

Community-based tourist service delivery in Chiloé and Palena. Revised final report

Tourism in four protected areas in the Tenth Region of Chile

ABBREVIATIONS

CONAF	National Forestry Corporation
CONAMA	National Environment Commission
EIA	environmental impact assessment
IDB	Inter-American Development Bank
MIDEPLAN	Ministry of Planning and Cooperation
OC	Ordinary Capital
RCC	Regional Coordination Committee
RCU	Regional Control Unit
SEIA	Environmental Impact Assessment System
SERNATUR	National Tourism Office
SERPLAC	Regional Planning and Coordination Secretariat
SUBDERE	Subsecretariat of Regional and Administrative Development
UNESCO	United Nations Educational, Scientific and Cultural Organization



CHILE

IDB LOANS

APPROVED AS OF SEPTEMBER 30, 2003

	US\$Thousand	Percent
TOTAL APPROVED	4,999,169	
DISBURSED	4,608,525	92.18 %
UNDISBURSED BALANCE	390,644	7.81 %
CANCELATIONS	905,490	18.11 %
PRINCIPAL COLLECTED	3,999,199	79.99 %
APPROVED BY FUND		
ORDINARY CAPITAL	4,752,975	95.07 %
FUND FOR SPECIAL OPERATIONS	203,336	4.06 %
OTHER FUNDS	42,858	0.85 %
OUTSTANDING DEBT BALANCE	609,326	
ORDINARY CAPITAL	603,454	99.03 %
FUND FOR SPECIAL OPERATIONS	4,856	0.79 %
OTHER FUNDS	1,017	0.16 %
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	787,153	15.74 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	866,348	17.32 %
ENERGY	1,104,824	22.10 %
TRANSPORTATION AND COMMUNICATIONS	589,038	11.78 %
EDUCATION	41,011	0.82 %
HEALTH AND SANITATION	369,752	7.39 %
ENVIRONMENT	2,719	0.05 %
URBAN DEVELOPMENT	511,944	10.24 %
SOCIAL INVESTMENT AND MICROENTERPRISE	113,485	2.27 %
REFORM AND PUBLIC SECTOR MODERNIZATION	356,080	7.12 %
EXPORT FINANCING	3,857	0.07 %
PREINVESTMENT AND OTHER	252,958	5.05 %

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



CHILE

STATUS OF LOANS IN EXECUTION AS OF SEPTEMBER 30, 2003

(Amount in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROYECTS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
1999 - 2000	4	509,294	212,823	41.79 %
2001 - 2002	2	49,800	4,530	9.10 %
2003	1	40,000	0	0.00 %
<u>PRIVATE SECTOR</u>				
2001 - 2002	1	25,000	20,763	83.05 %
TOTAL	8	\$624,094	\$238,116	38.15 %

* Net of cancellations. Excludes export financing loans.



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Chile

Tentative Lending Program

2003

Project Number	Project Name	IDB US\$ Millions	Status
*CH0179	Costanera Norte Highway System	75.0	APPROVED
CH0174	Rural Electrification Program	40.0	APPROVED
CH0178	Chile + Seguro Program	10.0	
CH0172	Community Based Tourism Development- Chiloe and Palena	10.5	
*CH0171	Antofagasta Desalinization Project	7.5	
Total - A : 5 Projects		143.0	
TOTAL 2003 : 5 Projects		143.0	

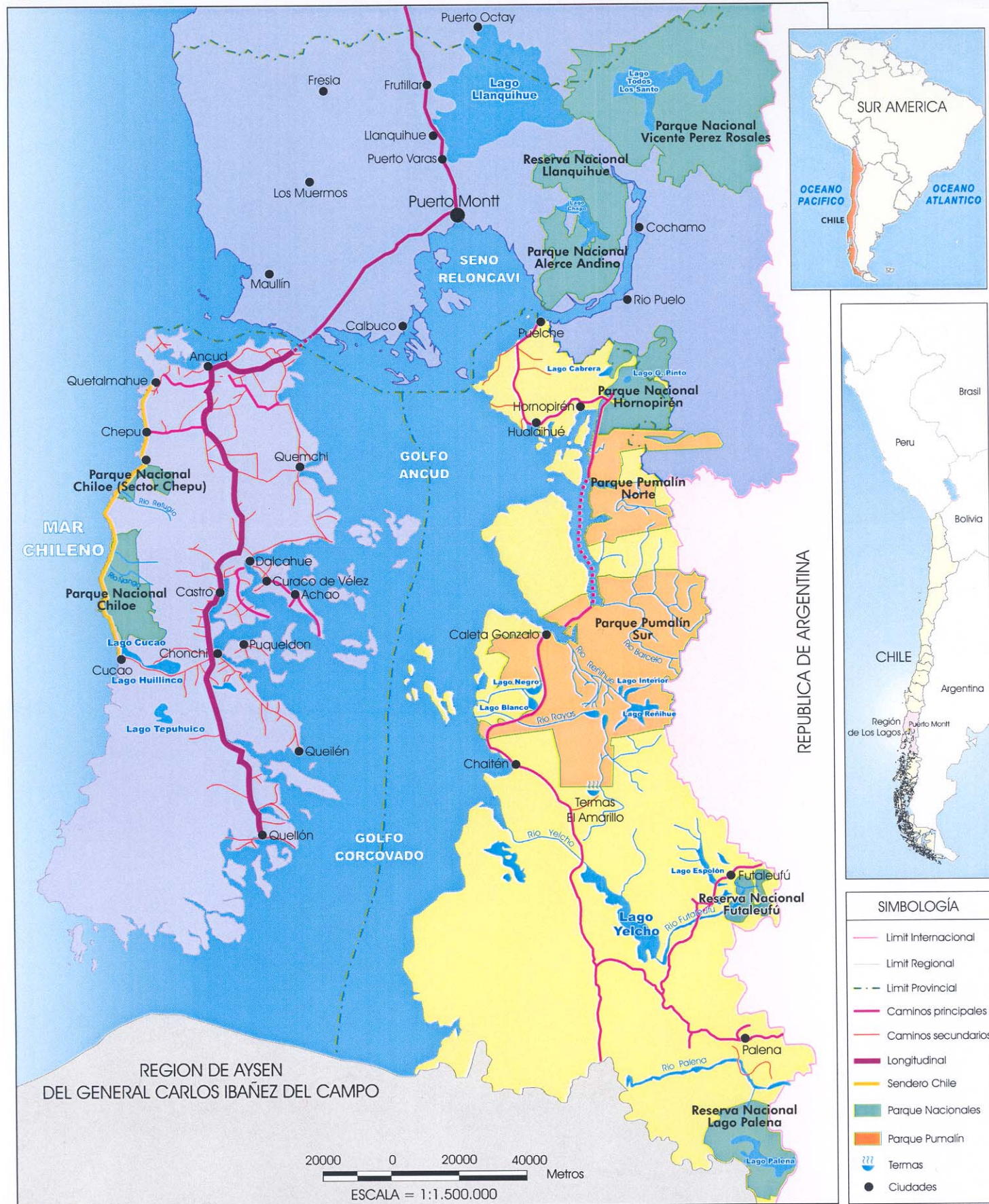
2004

Project Number	Project Name	IDB US\$ Millions	Status
CH0175	Public Real Estate Management Modernization - TC	5.0	
CH1001	Strengthening of Digital Strategy in Chile	15.9	
*CH1003	Ruta 60 toll road	70.0	
Total - A : 3 Projects		90.9	
TOTAL - 2004 : 3 Projects		90.9	
Total Private Sector 2003 - 2004		152.5	
Total Regular Program 2003 - 2004		81.4	

* Private Sector Project

CHILE

PROVINCIAS DE CHILOÉ Y PALENA



Este mapa, preparado por el Banco Interamericano de Desarrollo, no ha sido autorizado por ningún órgano competente y su inclusión en el documento de préstamo tiene por objeto exclusivo indicar el área de influencia del Proyecto que se propone financiar.

Design Unit: ITS/GSV (11/02)

SUSTAINABLE COMMUNITY-BASED TOURISM DEVELOPMENT IN CHILOÉ AND PALENA

(CH-0172)

EXECUTIVE SUMMARY

Borrower:	Republic of Chile																
Executing agency:	Subsecretariat of Regional and Administrative Development (SUBDERE), Ministry of the Interior																
Amount and source:	IDB (OC):	US\$10.5 million															
	Local:	US\$ 4.5 million															
	Total:	US\$15.0 million															
Financial terms and conditions:	<p>The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendation. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.¹</p> <table><tr><td>Amortization period:</td><td>20 years</td></tr><tr><td>Grace period:</td><td>4 years</td></tr><tr><td>Disbursement period:</td><td>Minimum: 3 years Maximum: 4 years</td></tr><tr><td>Interest rate:</td><td>Adjustable option/LIBOR-based option</td></tr><tr><td>Inspection and supervision:</td><td>0%</td></tr><tr><td>Credit fee:</td><td>0.25%</td></tr><tr><td>Currency:</td><td>U.S. dollars, Ordinary Capital Single Currency Facility</td></tr></table>			Amortization period:	20 years	Grace period:	4 years	Disbursement period:	Minimum: 3 years Maximum: 4 years	Interest rate:	Adjustable option/LIBOR-based option	Inspection and supervision:	0%	Credit fee:	0.25%	Currency:	U.S. dollars, Ordinary Capital Single Currency Facility
Amortization period:	20 years																
Grace period:	4 years																
Disbursement period:	Minimum: 3 years Maximum: 4 years																
Interest rate:	Adjustable option/LIBOR-based option																
Inspection and supervision:	0%																
Credit fee:	0.25%																
Currency:	U.S. dollars, Ordinary Capital Single Currency Facility																
Objectives:	<p>The program's long-range goals are to: (i) increase the income of Chiloé and Palena residents engaged in the tourism trade, and (ii) assure the sustainability of the group of Chiloé churches that UNESCO has inscribed on the World Heritage List. The purpose of the program is to increase visitor satisfaction.</p>																

¹ With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount, divided by the number of six-month periods included in the original disbursement period.

Description:	<p>The program seeks to improve the quality of tourist attractions and services in the provinces of Chiloé and Palena and enhance the tourism environment in that region. The proposed activities are grouped into two subprograms: (i) heritage restoration of Chiloé's churches inscribed on UNESCO's World Heritage List ("Heritage List churches"), and (ii) investments to further sustainable tourism development in these two provinces in Chile's Lake Region. The subprogram 1 investment projects have already been defined; details on the analysis and selection procedure and on administration of funds for this subprogram are set out in Operating Regulations 1. The prospective subprogram 2 investments have not been decided on in advance; they will be funded as individual products driven by local demand and implemented in accordance with the eligibility requirements and selection procedures described in Operating Regulation 2.</p>
Role of the project in the Bank's country and sector strategy:	<p>The program fits with the Bank's strategy with Chile and provides an opportunity to further the country's development in two ways. First, the program promotes a culturally and environmentally sensitive tourism development model that could be replicated in other communities. Second, it would serve as a catalyst for public-private interface for community-based tourism activities.</p>
Coordination with other multilateral development organizations:	<p>The Government of Chile has not previously funded any tourism development projects; hence, no other international agency has experience with the tourism sector in Chile (paragraph 1.65).</p>
Environmental and social review:	<p>The Bank's Committee on Environment and Social Impact (CESI) reviewed the project report on 17 October 2003 and found that the document adequately reflected its suggestions regarding the Profile II, made at its 13 September 2002 meeting.</p>
Benefits:	<p>The program's primary benefits will include: (i) economic benefits that will ensue once tourism-related businesses are strengthened, with a significant distributional impact in local communities; (ii) restoration or remediation of the foremost cultural and natural assets of Chiloé and Palena communities and enhancement of these assets as tourism resources; and (iii) bolstered institutional capacity for environmental conservation.</p>
Risks:	<p>The program's chief risk has to do with the inexperience and capacity constraints of local institutions that would be proposing and executing projects. This means that, at the outset, proposals might be received for projects that are not directly relevant to or not top priorities for</p>

tourism development in this region. This risk will be attenuated through the planned subexecuting agreements and operating regulations that go into detail about implementation arrangements and procedures, including investment-project eligibility and selection criteria that give priority to initiatives that will directly further the sector's development.

Another risk would be a lack of institutional commitment to defray the costs of operating and maintaining the numerous small works planned for subprogram 2. To counter such an eventuality, one requirement will be that the program's Technical Units undertake to defray operating and maintenance costs; that obligation would be written into Operating Regulations 2. Recipients of funding for individual projects will have to pledge to cover those costs after the program ends.

A third risk has to do with this region's lack of practice in involving the community in government decision-making. This is a definite consideration when developing a sector like tourism. Accordingly, considerable private-sector participation and community cooperation is required to deliver a quality tourism experience. To alleviate this risk the program will put civil society representatives on its Coordination Committee to perform tasks ranging from project proposal reviews to monitoring of the investments. Special focuses of the midterm review will be an analysis of how this process has been working and suggestions of corrective measures needed, if any.

Subprogram 2 is built around the submittal of project proposals. There is a risk that proposals might be received for projects that are not directly relevant to or not top priorities for sustainable tourism development in the region. Countering this risk are: (i) the eligibility and selection criteria developed, set out in Operating Regulations 2, which give priority to projects that will have a direct impact on extending tourists' stay and increasing their average spending; (ii) the plan to put representatives of the private sector and of the target communities on the program's Regional Coordination Committee (RCC); (iii) the requirement of RCC clearance before a project can be reviewed to see if it qualifies for program funding; (iv) the requirement to secure the Bank's nonobjection before tendering the first example of each type of works involving bus terminals, scenic lookouts, and markets; and (v) the planned midterm review.

**Special
contractual
conditions:**

The following will be conditions precedent to the first disbursement of the loan: (i) ratification of Operating Regulations 1 and 2 by the executing agency; (ii) evidence that the subexecuting agreement between the Diocese of Ancud and SUBDERE has been signed; and (iii) evidence that subprogram 1 projects totaling at least 1.025 billion Chilean pesos (equivalent at this writing to about US\$1.5 million)—the amount estimated for fiscal years 2003 and 2004—have received a favorable recommendation from the Ministry of Planning and Cooperation.

The following condition precedent must be fulfilled before subprogram 1 funds will be disbursed: personnel must have been hired and an accounting system acceptable to the Bank must have been set up.

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704), nor does it qualify as a poverty-targeted investment (PTI) (paragraph 4.27).

Exceptions to Bank policy:

None.

Procurement:

The procurement of goods and services funded out of the loan proceeds will be governed by the Bank's current procedures, which will form part of the loan contract. International competitive bidding will be mandatory for purchases of goods costing US\$350,000 and up, construction contracts worth US\$5 million or more (no works projects above that threshold are envisaged in the program), and consulting contracts over US\$200,000. Goods procurement and construction contracting for subprogram 1 must follow the procedures agreed on with the Bank pursuant to policy GS-311. Price will be used as a selection criterion for service providers in accordance with document GN-1679-3. When the selection is based on technical and price considerations the weight given to price may not exceed 20% of the selection factors. To expedite the program's execution the Bank may conduct ex post reviews of purchases of goods and of construction contracts costing less than US\$350,000, individual consultant contracts of less than US\$50,000, and consulting firm contracts under US\$100,000 (see paragraphs 3.24-3.26).

I. FRAME OF REFERENCE

A. Introduction

- 1.1 The Chilean provinces of Chiloé and Palena are located in the country's Lake Region (Region X) about 1,000 kilometers south of Santiago (see map). Their chief economic activities are agriculture, fishing, and aquaculture.
- 1.2 Both provinces are going through a difficult period. Salmon farming, Chiloé's leading industry, is facing some difficulties. The worldwide growth in salmon farming has driven down prices, which are currently 20% below normal levels. Since aquaculture has automated much of salmon farming, the industry is employing fewer and fewer people in Chiloé communities. In 2002 that province was hit by its first-ever "red tide" of toxic algal blooms which contaminated its natural and cultivated shellfish products and oyster production for export to Japan.
- 1.3 Palena's economic mainstay, livestock farming, also has been declining over the past decade as other parts of the country have increased production and prices have fallen. In the face of strong competition, ranchers are selling out. Palena also has been hurt by the devaluation of the Argentine peso, which has reduced the numbers of Argentine visitors to the area and made similar tourist attractions in Argentina more price-competitive at the moment.
- 1.4 According to official statistics, unemployment rates are low in the two provinces (5% in 2000), but a person is considered to be "employed" if he or she works one or more hours per week as a paid employee or 15 hours per week as an unpaid family member doing farm work. Significant underemployment among Chiloé and Palena residents does not show up in the statistics. Household incomes in Chiloé and Palena are lower compared with the rest of the country.

B. Tourism in Region X (Lake Region)

- 1.5 The Lake Region is the anchor of Chile's tourism industry, the natural beauty of its national parks being one of its prime draws. In 1999 the region welcomed 315,892 Chilean and 161,632 foreign visitors who accounted for 46.7% of visitors nationwide. The region's tourism hub of Puerto Montt–Puerto Varas is reasonably accessible and offers good quality services to meet the considerable demand in the domestic and international tourist markets.
- 1.6 The province of Palena and the archipelago of Chiloé in Region X are starting to develop a tourism industry but at present they are not included in package tours operating in this part of the country.

C. The Chiloé archipelago

1. Description

- 1.7 Chiloé is a cluster of islands reachable only by ferry and catamaran. Home to about 150,000 residents, it is a predominantly agricultural region. Most of the population lives in the towns of Ancud, Castro, and Quellón. Its climate is rainy, with average annual precipitation of 1.7 meters. Though the rainfall is lighter during the summer (vacation season) most days are still cloudy and wet. Thus, Chiloé lends itself to modest-scale tourism requiring no major capital outlays. If infrastructure conditions are improved, however, the negative impact of adverse climate conditions on tourism in the area could be attenuated.
- 1.8 Chiloé's foremost tourism assets are its culture and oceanic mythology, the indigenous Huilliche culture, a singular style of architecture, forests, and scenic beauty. Decades ago the archipelago was covered by forests; today the only remaining wooded areas are in Chiloé National Park and the southern part of the main island, Isla Grande.
- 1.9 The archipelago's traditional architecture is one element of its unique flavor. Chiloé's chief cultural attractions are its Heritage List churches, wooden houses that form part of the area's unique architectural treasure-house, and Spanish fortifications. The most emblematic structures are a group of simple wooden churches designed using the same techniques employed by shipbuilders. UNESCO has inscribed 16 of these churches on the World Heritage List.
- 1.10 The government has set out to foster agrotourism as a way to help small land-owners supplement their income. Over 400 families have opened their homes to visitors, providing accommodation and meals and giving guests a chance to participate in rural life. Visitors staying in these fairly rustic, very inexpensive accommodations can help with farm chores or go fishing or horseback riding, take out a rowboat or go for walks. Many of them help their hosts serve meals and wash dishes. So successful have government agencies been in developing this kind of tourism that there now is an oversupply of such lodgings and many unsustainable "businesses".
- 1.11 Chiloé has five prime marketable tourism products: (i) cultural or nature circuits, with short stays at different spots to see the Heritage List churches, architectural attractions, Spanish fortifications, Chiloé National Park, and the Puñuil Islands; (ii) adventure tourism: hiking Chiloé National Park trails, kayaking in Lacuy and Quechimi, and bicycle and boating tourism; (iii) cultural tourism: special-interest tours spotlighting Chiloé's churches and other wooden buildings, history, popular culture and folklore, and indigenous culture; (iv) ecotourism; and (v) rural tourism. The program proposed here will strengthen these emerging tourism products.

2. Demand

- 1.12 It is difficult to come up with Chiloé tourist numbers. Inputs for current estimates are numbers of ferry passengers (not all of whom are vacationing tourists), numbers of visitors to national parks (which do not keep track of all persons entering), and numbers of guests in lodging establishments (which tend to be underreported).

Chiloé	
Estimated visitor arrivals	
Year	Number of tourists
1990	167,100
1991	201,600
1992	162,400
1993	196,000
1994	230,000
1995	242,800
1996	301,800
1997	267,000
1998	266,200
1999	248,900
2000	258,000

- 1.13 Official statistics for 2001 have not yet been released but, according to the Chiloé Tourism Federation, tourism is down sharply in this area. Federation data reveal a 64% drop in visitors from Argentina—Chiloé’s primary foreign sending market—between December 2001 and December 2002 and a 77% decline between January 2002 and January 2003. Meanwhile, following the devaluation of the Argentine peso the number of Chileans visiting Argentina has climbed; the domestic market shrank 33% between January 2002 and January 2003.
- 1.14 Variation in the composition of tourism demand affects Chiloé revenues. According to a 2003 survey,¹ over 94% of Chiloé visitors are Chileans traveling on their own, i.e., not on organized tours. About one third (32%) of these visitors stay with family or friends; 12% are day-trippers and thus do not need accommodation. Looking only at vacationing tourists and sightseers staying in paid accommodations (not

¹ National Tourism Office (SERNATUR), National Statistics Bureau, regional government. Chiloé and Palena: Survey of visitors’ length of stay, average expenditure, and satisfaction. 2003.

counting campgrounds), the average length of stay is 3.77 days.² On average these visitors spend 12,333 Chilean pesos a day each, equivalent to US\$17.60.³

- 1.15 The survey highlighted the importance of Chiloé's World Heritage List churches as tourist attractions, these being the most popular visitor destinations, followed by trips to see the area's flora and fauna, visits to historic sites, beach activities, visits to national parks, and boating. As for visitor satisfaction ratings, some problems were observed in how the question had been formulated: the findings appear to reflect the intrinsic "importance" of some elements of the tourist experience rather than the quality of visitors' actual experience and how well that experience measured up to their expectations. The survey reports an average satisfaction rating of 6.68 (on a 7-point scale) but this figure cannot be considered representative.

3. Accommodation offerings

- 1.16 Chiloé offers visitors an assortment of lodgings ranging from hotels and cabins to guesthouses (private homes with four or more bedrooms), rooms in rural homes, and campgrounds. Overall, the quality of lodging is between acceptable and below standard for the Chilean market.
- 1.17 The data on accommodation offerings are unreliable. According to the National Statistics Bureau, Chile has 222 tourist lodging establishments offering 1,940 beds; the National Tourist Office (SERNATUR) counts 96 lodging places and 3,136 beds. The Bank's research puts the number of non-hotel accommodations and campgrounds at around 400, 60% of them operating without licenses or permits of any kind.
- 1.18 There are no official data on occupancy rates but SERNATUR estimates January and February average occupancy at 60% and 75%, respectively, with fairly low numbers the rest of the year. Hence, even in high season there is considerable idle capacity, particularly in rural tourist lodgings.

4. Problems to be remedied by the proposed program

a. The World Heritage List churches are deteriorating and are not an integral part of the area's tourist offerings.

- 1.19 The churches of Chiloé are steadily deteriorating because of the harsh climate and shortage of funds to maintain them. All but the Castro church are in poor condition and not set up to receive tourists. The Diocese of Ancud and the Foundation of

² If camping visitors are factored in, average length of stay rises to 4.28 days.

³ There was some question as to how representative this survey was. It was administered only during one part of the high season, the Tourism Federation considers the numbers to be low, and in the Bank's assessment the disaggregated findings were not very coherent. The questionnaire will be redesigned and the survey re-administered to establish the baseline.

Friends of Chiloé Churches have made a concerted effort to maintain the churches using community labor (the traditional *minga* reciprocal aid system) but there are no mechanisms to keep these churches financially sustainable, even though parishioners in each community contribute whatever money they can, plus their labor for repair work. The Diocese is insistent on controlling the restoration work and strengthening the region's mutual-aid culture, since earlier National Architecture Department initiatives and experience with contractors, in its view, did not end well and some authenticity was lost.

- 1.20 Though the Heritage List churches are one of the area's prime potential tourist draws they are not well integrated into the tourism product. Many are closed to the public, in part because it would cost money to light them and keep them clean and in part to prevent further deterioration. There are few qualified guides and no information available at all about the churches' architecture, artifacts, or importance to Chiloé culture. One subprogram of the proposed operation would restore these churches and prepare them for presentation to tourists, provide visitor information, train guides/security monitors, train restoration workers, and set up a system to generate revenue through entrance fees and publication sales.

b. Environmental quality control is inadequate.

- 1.21 At this point, the mechanisms for environmental quality control of urban and rural development in the land-use plans, urban regulatory plans, and community development plans are insufficient.

c. The full tourism potential of Chiloé's historic and architectural treasures is not being tapped.

- 1.22 Chiloé's charm lies in its architectural ensembles, cultural landscapes, and wooden houses. These assets have not been tapped or protected locally. Some recent construction is out of character and billboards along the streets detract from traditional buildings. Groups of buildings and individual structures made of wood are deteriorating because they are not being maintained. The stilt houses that the province promotes as a tourist attraction are in disrepair and there is no information available to visitors about the functionality of the houses' design. The area's Spanish fortifications are not visitor-ready and, again, there is no information at all to orient visitors. Only one place in the province has been designated as a "typical zone", a heritage label denoting a protected area.

d. There are considerable gaps in tourism infrastructure, amenities, and equipment.

- 1.23 A visitor alighting from the ferry in Chiloé will find no information at all on what to do, where to stay or eat, the quality of accommodation options, or what any of these services will cost.

- 1.24 Chiloé National Park has some visitor facilities but could provide far more camping places and information for ecotourists. For instance, the park is not set up to accommodate visitors who may wish to stay overnight in this rainy climate; there are few covered shelters for campers; trails are not designed for multi-day circuits, and there are no signs. Entrance fees are low, and the park does not cover its operating costs.
- 1.25 There are some museums in the region but no interpretation (i.e., explanations and information) at all is offered at any of its cultural or natural sites, and signs—where they exist—are in Spanish only. The handful of trained guides speak no foreign languages. The key to lengthening visitors' stay and enhancing their satisfaction, in addition to viewing Chiloé's historic, cultural, and natural treasures, is to provide them with fuller information on these heritage resources.

e. Accommodation and food services provided by small businesses are not up to the requisite standard.

- 1.26 According to research that looked at Chiloé's stock of accommodations (in Ancud, Castro, and Chonchi), around 60% of these facilities are operating informally, without a municipal license or health permit and not registered with the national tax department. Three quarters of all campgrounds, 59% of guesthouses and other home-based lodgings, and 50% of cabins and hotels fall into this "informal" category. The research also revealed that 29% of foodservice establishments are not fully legal operations and a high percentage of them are not in compliance with health and safety standards.
- 1.27 Traditionally, the chief hurdles facing proprietors of lodging places who wished to legalize their operations were compliance costs and red tape. Under Chile's new (August 2001) Family Microenterprise Law,⁴ accommodation and foodservice establishments can file a single form to satisfy the requirements of several government agencies. This law also exempts family enterprises⁵ from zoning restrictions and allows them to secure a municipal business license before registering with the tax department. However, according to IDB research, very few people—including municipal officials—are familiar with this legislation.
- 1.28 Recent amendments to National Environment Commission regulations have done away with the environmental impact statement for camping facilities smaller than 5,000 square meters, with a capacity for fewer than 300 people or 100 parking spaces, and offering fewer than 100 beds or 50 campsites. This has all but eliminated such requirements for Chiloé.

⁴ Law 19,749 signed by President Lagos on 16 August 2001 and published on 25 August 2001.

⁵ Home-based businesses; maximum of five non-family employees; maximum business assets of US\$24,000 not including the building; the business activity must be nonpolluting and environmentally benign.

- 1.29 None of the new laws exempts family enterprises from health and hygiene standards, and many such operations are not complying with regulations on cooking appliances, chlorination systems and water tanks, septic tanks, bathrooms, and solid waste disposal. The equipment needed to satisfy all these requirements is expensive. Many businesses are not familiar with basic food hygiene practices. Neither microenterprises nor mid-sized operations know how to take locally available ingredients and come up with dishes that will be to the taste of a more sophisticated clientele.

f. There are too few trained tourist guides.

- 1.30 To enjoy Chiloé and its mythology, history, culture, architecture, and natural assets, visitors need “interpretation.” The region has very few guides who are able to turn a visit to “ordinary” sites or structures into an out-of-the-ordinary experience.

g. Businesses have too little information about credit and have difficulty borrowing.

- 1.31 Virtually all tourism-related businesses say that they need more credit for their current operations and to pursue new ventures. Larger establishments have ready access to loans but smaller ones—with sales of less than about US\$1,000—need credit and have difficulty obtaining it. Though the prime requirement of these highly seasonal operations is working capital they also need to borrow for modest capital outlays for sanitary facilities (bathrooms, septic tanks, storage tanks) and equipment (small boats, saddles, kayaks, rafts, etc.).
- 1.32 There are seven credit facilities available in Chile for small-business finance. Some are for specific purposes such as computer purchases, training, or leasing.
- 1.33 Two public institutions have programs targeted to low-income groups: one is designed to spur productive activity (Social Solidarity and Investment Fund—FOSIS), the other promotes agricultural development, including rural tourism (National Agricultural Development Administration—INDAP). Many businesses are unaware of the financing options open to them and have trouble putting together the paperwork.
- 1.34 There is no credit component in the program proposed here because there already are institutions that can perform this function and make credit more readily available to eligible families. However, the program will provide direct support via grants to the groups most in need of finance, i.e., low-income households.

D. Palena

1. Description

- 1.35 The province of Palena is very different from Chiloé. For one thing, it is hard for visitors to get to: they can travel from Puerto Montt on a catamaran that operates three times a week; overland via the unpaved Austral “Highway”, a trip that requires several ferry crossings, or by road from Argentina or Region XI; or in small aircraft when weather permits. The largest city in this sparsely populated province is Hualaihué with 8,233 inhabitants, followed by Chaitén (7,102), Futaleufú (1,818), and Alto Palena (1,680). Limited telecommunications and a shortage of phone lines mean that few establishments are on the Internet or accept credit cards.
- 1.36 Ranching and the timber industry have been the economic mainstays of this topographically diverse province. Its communities are less established than Chiloé’s and many tourist facility operators are newcomers to the province. Palena is known for sportfishing, adventure tourism (including rafting, white-water kayaking, and mountaineering), and its nature reserves.
- 1.37 Palena could potentially offer five main tourist products: (i) nature tourism in Pumalín Park, Hornopirén National Park, Lake Yelcho, the Futaleufú River, the Llancahué Islands and hot springs, and along the Austral Highway; (ii) adventure tourism, notably kayaking and rafting on the Futaleufú River, hiking in the province’s national parks and reserves, and mountain biking; (iii) sportfishing in rivers and lakes; (iv) ecotourism, to visit fjords, rivers, volcanoes, parks, and reserves; and (v) rural tourism, though its prospects are less promising in Palena than in Chiloé because of travel conditions, poor communications, a lack of electricity, and Palena’s extreme climate.

2. Demand

- 1.38 It is difficult to come up with numbers of visitors to Palena. Current estimates are based on numbers of ferry passengers (not all of whom are tourists) and numbers of vehicles crossing the Argentina/Chile border at two border points (though not all of these vehicles are carrying vacationers). The figures in the following table give a rough idea of visitor arrivals, with a potentially high margin of error.

Palena
Estimated visitor arrivals

Year	Number of tourists
1997	17,900
1998	21,200
1999	27,500
2000	31,000

- 1.39 Tourism demand in Palena is highly seasonal, concentrated in the months of January and February when over half of all visitors arrive. This is largely the result of this region's climate, with an average 3.1 meters of precipitation annually—some of it in the form of snow at the higher altitudes—and with some rainfall even in the peak tourism months. Other factors that make the tourism demand so seasonal are Chilean vacation periods and those of neighboring countries and the duration of the fishing season.
- 1.40 According to a 2003 survey,⁶ 73% of Palena visitors are from Chile. The 27% foreign-tourist share is much higher than in Chiloé; many of Palena's foreign visitors come from the United States and Europe. Most foreign tourism is of the enclave variety—tourists traveling on prepaid sportfishing or rafting packages. Since the fishing or rafting companies purchase virtually all their supplies outside Palena their operations are of only modest benefit to the local economy.
- 1.41 Three quarters of Palena visitors are vacationers or sightseers; the other 25% have come to visit family members or friends or are traveling on business. Counting only vacationers and tourists staying in paid accommodations (not including campgrounds) the average length of stay is 3.77 days—identical to the Chiloé figure.⁷ On average this group spends 15,557 Chilean pesos a day, equivalent to US\$22.20.
- 1.42 According to the survey, the most popular tourist focus was the region's flora and fauna, followed by visits to national parks, thermal springs, and fly-fishing. Echoing the findings from Chiloé where the same questionnaire was used, answers to the question about tourist satisfaction appear to refer more to the intrinsic importance of various facets of the tourist experience than to how well visitors' experiences measured up to their expectations. The survey comes up with a 6.59 average satisfaction rating on a scale up to 7, but suffers from the aforementioned limitations.

⁶ SERNATUR, National Statistics Bureau, regional government. Chiloé and Palena: Survey of visitors' length of stay, average expenditure, and satisfaction. 2003.

⁷ If camping tourists are included, average length of stay increases to 4.93 days.

3. Accommodation offerings

- 1.43 Palena offers visitors a choice of hotels, cabins, guesthouses (private homes renting out four or more rooms), rooms in rural homes, an agrotourism network, and campgrounds. Most of these lodgings are of inferior quality. Except for some upscale fishing lodges that attract foreign sportfishing enthusiasts the province's accommodation stock falls below the expectations of better-off foreign tourists because the services on offer are not up to their standards and few facilities accept credit cards.
- 1.44 There are inconsistencies in official data on Palena accommodations as there are for Chiloé. According to the National Statistics Bureau there were 93 lodging establishments in Palena in 1999 with 730 beds (7.8 beds per establishment); SERNATUR figures for that year put the total at 63 establishments with 1,141 beds (18.1 beds per establishment).
- 1.45 There are no occupancy rate estimates for Palena but its tourism demand is probably even more seasonal with establishments closing in off-season. In high season accommodation is so tight that many tourists have to stay in private homes. Because the tourist season lasts such a short time, the accommodation business is not very profitable in either province.

4. Problems to be remedied by the proposed program

a. Environmental quality conservation needs strengthening.

- 1.46 Since Palena is more sparsely populated than Chiloé it has fewer environmental quality issues, though there are some concerns. The deforestation problem can be controlled once the local population understands that tourism and the income it could bring in depend on the region's natural beauty.
- 1.47 A number of other problems could harm the Palena tourist industry. One is overfishing by local residents who exceed the catch limit for commercial sale. This has implications for the number and size of the fish population, which in turn could affect catch-and-release tourist fishing that offers much higher potential returns. There are problems as well with solid waste management; for instance, smoke from burning rubbish has been known to obscure the view from scenic lookouts. Palena has no land-use master plan or curbs on developments that could hurt tourism.

b. The province has not developed some major attractions.

- 1.48 Though visits to national parks and reserves are Palena's second most popular tourist activity these areas are not set up to receive visitors. The only trail into Hornopirén National Park is used by loggers, making it hazardous for visitors on foot. The Futaleufú and Palena nature reserves have no visitor facilities at all, even though the municipality of Futaleufú is the region's adventure tourism hub. Other

areas outside the national parks could become adventure tourism destinations if they were developed.

- 1.49 The municipality of Chaitén is home to El Amarillo hot springs, but the few visitor amenities available there are unappealing. Since thermal springs are tourists' third most popular destination, simply enhancing facilities and amenities could yield returns. Under Chilean law this kind of project would have to be picked up by the private sector, but the feasibility study and preparation of concession tendering documents could fit in the program proposed here.
- 1.50 The program provides for funding for national park and reserve management plans and investments for trail development, shelters, water supply systems, sealed toilets to control the Hanta virus, access control, parking, information centers, and park warden lodgings. Investments that promise to yield sufficient cash flow for the requisite maintenance should be concessioned out. One consideration here is that the number of park and trail development opportunities far outstrips the likely medium-range demand; Operating Regulations 2 require a cap on the number of initiatives selected for funding.

c. There is a dearth of tourist information.

- 1.51 A large percentage of Chilean visitors to Palena arrive by car. If these tourists are not given information on activities, lodging, and restaurants they will spend less time and less money in the area. There is no information center in Hualaihué, the first town on the Austral Highway. There is a single information stand near the Chaitén ferry/catamaran port, another possible entry avenue. Information services are needed at the other access points.

d. Lodging, food, and guide services need improving.

- 1.52 Accommodation and food services in Palena present the same quality problems as in Chiloé. There are few qualified local guides to take tourists fly-fishing, rafting, mountaineering, or horseback riding. Enclave tourism companies currently bring in their own guides from outside the province and, often, from outside the country.
- 1.53 To tackle these problems the program will make funding available for training programs and will provide grants to low-income home-based accommodation providers to purchase durable equipment needed to be able to rent rooms to visitors. Among the potential training focuses are hygiene, cuisine, tourist business management, and adventure tourism guiding.

E. Stakeholders

- 1.54 In preparing this program extraordinary care was taken to work with local stakeholders. The Bank team met on various occasions with representatives of groups that stand to be affected by the program. Five group meetings were held in

Palena's largest towns as well as a general town meeting to elicit community input. Two group meetings were organized in Chiloé and two by-invitation public consultation forums. The consultants worked with the community and with municipal officials to gather and develop project ideas put forward by those stakeholders. This loan proposal describes only the most representative of the various stakeholder groups.

- 1.55 **The borrower and the executing agency (Subsecretariat of Regional and Administrative Development—SUBDERE)** see the program as a pilot initiative to find a *modus operandi* for cultural heritage and tourism management. Though modest in amount, the program is important because it is one way for the Chilean government to deliver on its commitment to UNESCO to preserve the World Heritage List churches.
- 1.56 **Tourism associations** (tourist boards) have formed spontaneously in both Chiloé and Palena. Their members are hotel and restaurant owners, tour operators, rural tourism organizations, and government agencies. Chiloé's association is more formal: it meets regularly, distributes a newsletter via the Internet, and maintains a website. It is an important lobby group that is highlighting such problems as the lack of tourism promotion, inapt municipal handling of temporarily-licensed competitors from outside the province, and student backpackers camping in public places.
- 1.57 The **municipalities** are interested in the new jobs and development that an increase in tourism would bring. Several Chiloé municipalities have a tourism unit. However, these local governments are inexperienced in tourism management and the Chilean tax system gives them few revenue-generation options. They are required to give a share of their property tax and business license revenues to the Common Municipal Fund for redistribution. All these constraints make efficient solid waste management, delivery of other city services, and effective environmental management difficult for the municipalities.
- 1.58 The Diocese of Ancud has organized and supported one of Chiloé's two rural tourism networks. As owner and caretaker of the churches targeted in the program it mobilizes the community to repair and maintain these heritage structures using the traditional *minga* cooperative reciprocal-aid approach. The Diocese supports tourism that kindles cross-cultural dialogue and opposes tourism that treats Chiloé and its people as objects. Like some other kinds of cultural organizations the Church is opposed to the staging of artificial community events to entertain tourists. The kind of program the Diocese of Ancud supports is one in which the community, with assistance from professionals, restores and maintains its churches, displays them to the public, and explains their societal significance. It is in favor of opening the churches to the public if tour operators will agree to contribute to their cleaning and maintenance.

- 1.59 The **National Forestry Corporation (CONAF)** is the agency responsible for park conservation and operation. It recently launched a system to concession out the construction and operation of visitor facilities in parks—an approach that has not always worked well.
- 1.60 **Women** run guesthouses and other home-based establishments, rural tourist lodgings, and informal restaurants and produce and sell crafts. Since the demand for male labor intensifies during the months in which salmon and farm crops have to be harvested—which also are the peak tourist season—it is expected that women will benefit the most, directly or indirectly, from the growth in tourism, when they replace men who leave other jobs to work in the tourist trade.
- 1.61 The **indigenous population**, mostly Huilliche communities, are increasingly exploring development paths that are in harmony with their identity and conserve their natural resources. They see tourism as a means of creating employment and income as well as a way to protect and promote their natural and cultural heritage. Indigenous groups need training to be able to manage and benefit from tourism.

F. The Bank's experience with tourism development

- 1.62 The Bank has learned a number of lessons regarding project preparation and execution for tourism development programs. It has seen that tourism can create jobs and otherwise benefit the local population but that, in order to secure these benefits, the authorities have to be equipped to manage the impacts of tourist flows. To assist in that regard the proposed program will promote the development and operation of land-use plans and environmental controls on natural-resources use. Two further lessons distilled from the Bank's experience are that the more carefully activities are planned and sequenced the more successful they will be, and that if municipal governments, the private sector, and civil society are to see tourism as an activity of benefit to local residents then all these stakeholders must have a say in the planning process.
- 1.63 To apply these lessons the Bank funded a diagnostic assessment of the Chiloé and Palena tourism industry (see the list of information available in the files) and helped the government design a visitor spending and satisfaction survey. With Spanish government technical cooperation funds (ATN/SI-7782-CH) the Bank hired a consulting firm to talk with the program's end-beneficiaries and prepare specific projects designed, in the short term, to increase visitors' length of stay and spending in the current tourist market and, in the medium to long term, to prepare Chiloé and Palena for an increase in visitor numbers, seeking to avoid what happens when municipalities and the private sector lack experience in tourism management.
- 1.64 To obtain funding under Chile's National Investment System, government units (municipalities or national directorates with offices in the region) have to submit

project proposals which the Ministry of Planning reviews one by one (paragraphs 3.18-3.21).

G. Experience of the World Bank and other international organizations

- 1.65 The Government of Chile has not previously funded any tourism development projects; hence, no other international agency has experience with the tourism sector in Chile.

H. The Bank's strategy with Chile

- 1.66 The proposed program fits with the Bank's strategy with Chile and provides an opportunity to further that country's development in two ways. First, the program promotes a culturally and environmentally sensitive tourism development model that could be replicated in other communities. Second, it would serve as a catalyst for public-private partnerships for community-based tourism activities.

I. Conceptual design

- 1.67 Though tourism can play a significant role in Chiloé and Palena it is much too seasonal to be the prime driver of growth or the main answer to unemployment or low incomes in these communities. An important consideration is that some groups in the Chiloé community do not wish to see a massive tourist invasion but rather a flow of visitors that will allow the local culture to be preserved.
- 1.68 The program was originally conceived as specific projects to prepare Chiloé and Palena for an increase in tourists in the medium to long term, with a heavy emphasis on: (i) environmental control; and (ii) community participation. In its present configuration the program consists of one set of predefined projects plus a funding window for projects driven by local demand (not defined in advance). The program's aim is to raise the income of people working in the tourism industry in these two provinces, improve environmental quality, and enhance the area's cultural heritage resources and natural assets. The program is consistent with this approach and with Chilean legislation which requires project proposals to be submitted to the National Public Investment System (SNI) by Technical Units, which in turn reflect the communities' priorities.
- 1.69 If there is relatively little emphasis on tourism promotion in the proposed program it is because Chiloé and Palena need to be equipped to develop their tourism products and deliver a good standard of service before launching a more ambitious promotional campaign. Nevertheless, funds are budgeted in the program to compile data on tourism supply and demand, to give the government the information it needs to craft a marketing plan. The promotional plan to be developed with program funding could be implemented in the last year of the program.

II. THE PROGRAM

A. Objectives and description

- 2.1 The program's long-range goals are to: (i) increase the income of Chiloé and Palena residents working in the tourist trade, and (ii) assure the sustainability of the group of Chiloé churches that UNESCO has inscribed on the World Heritage List. Different sets of indicators will be adopted to measure progress toward each of these objectives. For the first goal, national employment and income statistics are too aggregated to be able to measure incremental income accruing to residents of the two provinces, so the program will adopt two associated indicators: (i) increase in average length of visitors' stay, and (ii) increase in average per capita daily tourist spending. With respect to the second objective, though the Diocese clearly is committed to maintaining the churches, the critical factor for maintenance in the future will be the availability of funds to purchase supplies and materials. Accordingly, the program will use as a sustainability indicator the revenue generated by guided tours of the churches and the production of pamphlets, Christmas cards, calendars, and other publications.
- 2.2 The purpose of the program is to increase visitor satisfaction, this being the anticipated outcome of improvements in the quality of tourist attractions and services and the tourism environment in Chiloé and Palena. Visitor satisfaction will be gauged through a survey administered twice a year in the two provinces (see Logical Framework in Annex I).

B. Subprograms

- 2.3 The program activities are grouped into two subprograms: (i) heritage restoration of Chiloé's churches inscribed on UNESCO's World Heritage List ("Heritage List churches") and (ii) investments to further sustainable tourism development in the provinces of Chiloé and Palena in Chile's Lake Region. The subprogram 1 investment projects have already been defined; details on the analysis and selection procedure and on funds administration for this subprogram are set out in Operating Regulations 1. Subprogram 2 investments are not being defined in advance; this subprogram will fund individual projects driven by local demand and implemented in accordance with eligibility requirements and selection procedures described in Operating Regulations 2.
- 2.4 The aim of Operating Regulations 2 is to guide all the program activities toward outcomes that will assure sustainable tourist flows and increase visitors' length of stay and spending. The only eligibility criterion in these regulations for investment projects is that they create "a positive and significant impact on tourists' average expenditure and average length of stay or further environmentally sustainable tourism in the region."

1. Heritage restoration of Chiloé's World Heritage List churches (US\$2.8 million)

- 2.5 This subprogram will fund conservation work and enhancements to Chiloé's leading tourist draw, its World Heritage List churches. Targeted for funding are: (i) emergency repairs to Heritage List churches; (ii) studies, structural calculations, designs, and costing; (iii) complete restoration of nine Heritage List churches (Chonchi, Quinchao, San Antonio de Colo, Ichuac, Chelín, Aldachildo, San Juan, Vilupulli, and Tenaún), including construction or enhancement of chapel museums and murals; (iv) minor repairs and conservation work on the other seven Heritage List churches (Achao, Caguach, Castro, Dalcahue, Detif, Nercón, and Rilán); (v) training of artisans and carpenters in restoration techniques for Chiloé School wooden churches (woodworking school); (vi) purchases of tools, equipment, and vehicles for the church conservation work; (vii) training of heritage guides, and (viii) a program to keep the public apprised of the restoration work, including the purchase of technological support equipment to set up databases, a website, and information publications.
- 2.6 The World Monuments Fund (WMF), an international private nongovernmental organization, is contributing a Robert W. Wilson Challenge Grant for the equivalent of US\$350,000. This money does not form part of the program funding: it is parallel, complementary financing. It will pay for identified priority activities for which the Chilean government cannot, by law, provide funding, such as the Hosting Center and workshops for the woodworking school in the decommissioned La Inmaculada Church. The WMF, which is dedicated to the preservation of tangible and intangible heritage resources, works directly with the Diocese's Cultural Foundation of Friends of Chiloé Churches and has its own supervisory arrangements.

2. Investments to further sustainable tourism development in Chiloé and Palena (US\$10,21 million)

- 2.7 This subprogram will finance activities proposed by government departments or agencies or municipalities which embody the demand from community associations, nongovernmental organizations, and the private sector. To qualify for funds under this subprogram a project must be designed to enhance and provide information about area tourist destinations and attractions, improve services for tourists, and offer ideas on how to improve tourism resources in the program area.
- 2.8 The subprogram activities are grouped by strategic action focus as described below. The text boxes list examples of types of projects that could qualify for funding if the proposals are submitted following the procedures described in chapter III of this loan proposal and in Operating Regulations 2.

- a. Restoration of historic fortifications and associated landscapes, including restoration and protection of significant architectural ensembles and historic landscapes.

Box 1. Restoration of fortifications and associated landscapes

- Declaration of sites as “typical zones” and their protection and restoration (architectural ensembles and heritage landscapes). The program would fund studies needed to designate these fortifications and landscapes as typical zones and preparation of documentation needed to apply for the Ministry of Planning and Urban Development’s Competitive Program for Public Space in Heritage Sectors. That ministry contributes at least 80% of the investment funds; this will strongly leverage the funding made available under the proposed program. Areas that could qualify are Tenaún, Colo, Mechuque, Dalcahue, San Juan, Palafitos de Gamboa, Rilán, Castro, Nercón, Chelín and Quehui; Chonchi, Vilupulli, Achao, Quinchao, Caguach, Aldachildo, Ichuac, and Detif. A number of these areas complement the World Heritage List churches.

- b. Feasibility studies and final designs for projects pursuing sustainable management of tourist attractions, such as master plans for urban and rural areas, development of municipal ordinances for land-use control, designation of typical zones and measures for the preservation of urban character, management plans for national parks and other protected areas, comprehensive solid waste management plans, studies on environmental management of the area, and studies regarding potential private ventures.

Box 2. Feasibility studies and final designs

- Solid waste management in the two provinces.
- Development of municipal ordinances to preserve the character of towns and rural areas and curb environmental degradation.

- c. Tourism infrastructure and facilities: visitor areas in national parks, tourist trails, municipal campgrounds, signage, information centers, craft markets, museums, solid waste disposal systems, bus stations, scenic lookouts.

Box 3. Tourism infrastructure and facilities

- Chiloé: Creation of the Chilean Trail starting at the seaside town of Ancud and following the coast, traversing the two sections of Chiloé National Park. If properly built with shelters, running water and sanitary facilities this trail could draw foreign and adventure tourists traveling to the Torres del Paine mountains and induce them to stay in the area for a week.
- Palena: Trails in Hornopirén National Park, the Futaleufú and Palena nature reserves, and “Heritage Routes” and another section of the Chilean Trail. At present there is not a large enough market for all these trails so it is important to develop a maximum of three of them properly (shelters, running water, adequate sanitary facilities). Well-maintained trails would have a significant impact on the length of the visit.
- Palena: Municipal campground network with structures to shelter campers from the rain (3.1 meters of precipitation annually). This network would serve tourists doing the circuit that crosses the province of Palena, induce them to stay longer, and ease the high-season accommodation crunch.

- d. Training in municipal tourism management; municipal environmental management; management of provincial tourism boards and quality assurance procedures; visitor reception and orientation; culinary arts and food preparation hygiene; administration and management of rural tourist operations; tourist guides, with an emphasis on cultural tourism, ecotourism, sportfishing, mountaineering, and rafting; and in production and marketing of local handicrafts.

Box 4. Training

- Training of municipal employees and tourist board staff in management and public-private partnerships that can enhance the quality of the tourist experience. One key ingredient for this program's success is that the private sector convey its priorities to government agencies. Often municipal governments do not recognize their weaknesses in this area and thus do not ask for training.
- Training of local residents in the delivery of non-lodging services (see Box 5). Preference will be given to people who are already offering services and projects for which the requisite equipment is already in place or the business operator is able to borrow to purchase it.

- e. Grants for low-income families who are running or could run a microenterprise, in order to: improve and equip their tourism infrastructure, complying with health standards and other legal requirements to regularly deliver tourist services, and repair homes in and around heritage churches and designated areas.

Box 5. Grants for low-income households

- Funding for refrigeration equipment and dishwashers.
- Bathroom installation.
- Installation of septic tanks or water tanks and chlorinators.
- Roof, façade, and structural repairs of heritage dwellings.

- f. Information on tourist behavior, satisfaction, and spending patterns in Chiloé and Palena and on tourism offerings and demand in this region, and design and operation of a publicity and marketing program.

- 2.9 Each of these action focuses is described in the subprogram 2 Operating Regulations, which will specify allowable objects of expenditure, eligible recipient institutions, and terms and conditions of each individual transfer of funds. All goods and services generated will be transferred to beneficiaries, whether municipalities or individuals, on a nonrecoverable basis.

C. Program costs

1. Total cost

- 2.10 The program's US\$15 million total cost would be funded by a US\$10.5 million loan from the Bank (70% of the total) and a US\$4.5 million equivalent counterpart contribution from the Chilean government (30%).
- 2.11 The following summary table breaks down the program cost.

Cost table
(US\$000 equivalent)

	IDB	Local	Total	%
1. Engineering and administration	210	90	300	2.0%
2. Direct costs	9,950	3,060	13,010	85.3%
2.1 Restoration of Heritage List churches	1,960	840	2,800	
2.2 Investments to further sustainable tourism development in Chiloé and Palena	7,990	2,220	10,210	
3. Associated costs	340	90	430	2.9%
3.1 Monitoring and evaluation	340	90	430	
4. Financial expenses	-	1,260	1,260	8.4%
4.1 Interest	-	60	60	
4.2 Credit fee	-	60	60	
4.3 Inspection and supervision	-	-	-	
TOTAL PROGRAM COST	10,500	4,500	15,000	100.0%
Percentage of total cost	70%	30%	100%	100.0%

2. Cost breakdown

- 2.12 The activities covered in each expenditure line are as follows:
- a. **Engineering and administration** (US\$300,000, 2% of total program cost): This will pay for the strengthening of SUBDERE by hiring an architect or civil works builder, an administrative assistant for the Regional Control Unit, and an accountant for accounting data management in the National Control Unit, with equipment purchases for this latter office. The program also will fund office-equipment procurement, supervision visits, and workshops and seminars.
 - b. **Direct costs** (US\$13.01 million, 86.71% of total program cost): Items slated for funding by subprogram are: (i) subprogram 1—Restoration of World Heritage List churches (US\$2.8 million): hiring of human resources to design and execute the restoration work; purchase of tools, education materials, general inputs; technological support; and equipment, office and vehicle maintenance; and (ii) subprogram 2—Investments to further tourism development in Chiloé and Palena (US\$10 million): funding for eligible projects in accordance with Operating Regulations 2.

- c. **Associated costs** (US\$430,000, 2.8% of total program cost): The program will fund monitoring and evaluation costs, including the midterm review. Program funds also have been budgeted to set up and operate a system to regularly gather data on tourism supply and demand in Chiloé and Palena (visitor numbers, average length of stay, average expenditure, and visitor satisfaction ratings).
 - d. **Financial expenses** (US\$1.260 million, 9.8% of total program cost): This covers the payment of interest and the credit fee during the program execution phase, calculated on the basis of the adjustable interest rate option. The interest and credit fee payments will come out of the program's local counterpart.
- 2.13 By source of funding, expenditure line items break down as follows: engineering and administration and Heritage List church restoration (subprogram 1)—70% funded out of the loan proceeds and 30% with counterpart resources; investments to further sustainable tourism development in Chiloé and Palena (subprogram 2) and associated costs: 78,3% from the loan proceeds and 21% from the local counterpart, in order to maintain the pari passu rate for the program overall, since interest and credit fee payments are being recognized as local counterpart contributions.

III. IMPLEMENTATION ARRANGEMENTS

A. Program implementation and administration

1. Executing agency

- 3.1 The program's executing agency will be the Subsecretariat of Regional and Administrative Development (SUBDERE), acting through its Santiago-based Regional Development Division and its Regional Control Unit in the Lake Region.
- 3.2 It will be SUBDERE's responsibility to coordinate and manage the administration and control of program funds, serving as Chile's liaison with the Bank for those matters, and to keep accounting and financial records, prepare disbursement requests and accountings of program-funded expenditures and submit these to the Bank, ensure that the program monitoring and evaluation activities are carried out, and provide the Bank with all the information and documents it needs to monitor and administer the loan contract.
- 3.3 The Regional Control Unit's functions in the program will be to: (i) check that proposed projects are relevant and eligible according to the program's Operating Regulations; (ii) apply the individual-project eligibility and selection criteria prescribed in Operating Regulations 1 and 2; (iii) maintain financial and accounting controls of the program; (iv) receive and provide information on the performance indicators agreed on with the executing agency; (v) document the information required by the Regional Development Division and send it promptly to that office; (vi) be in continual contact with the Administrative Service of the regional government, the program's Technical Units, and the Ancud Diocese to avoid procedural errors or objections that could hold up the program; (vii) prepare disbursement requests and send them to the Regional Development Division for review; and (viii) check to make sure that the Administrative Service of the regional government and the respective Technical Units are following procedures prescribed in the respective Operating Regulations for all purchases of goods and services paid for out of the loan proceeds and counterpart funds.

2. Subexecuting agency

- 3.4 The Diocese of Ancud will be the subexecuting agency for subprogram 1. SUBDERE and the Diocese will sign an agreement to that end. **Signature of the agreement will be a condition precedent.** The subexecuting agency's responsibilities are outlined in section B.1 below.

3. Support organizations

- 3.5 SUBDERE, as executing agency, will coordinate the program's implementation with the government agencies that have a mandate to plan, support, and monitor capital projects in Chile. These include: (i) the regional government, which supervises public spending and investment in the Lake Region which takes in the provinces of Chiloé and Palena; (ii) the Ministry of Planning and Cooperation (MIDEPLAN) and the Finance Ministry's Budget Directorate (DIPRES), which regulate and administer the public-investment proposal review system (National Investment System); (iii) the National Tourism Office (SERNATUR), which will consult with the private sector to ascertain its interest and fit the proposed program's support within the framework of the region's tourism development priorities; and (iv) Technical Units selected by the program's Regional Coordination Committee, associated with the program's various action focuses, which will be responsible for proposing and executing individual studies and works funded under subprogram 2. The Ancud Diocese, as the subprogram 1 subexecuting agency, will also be the technical unit for that subprogram.

4. Operating Regulations

- 3.6 Execution of this program will be governed by two sets of Operating Regulations, one for each subprogram.
- 3.7 Operating Regulations 1 prescribe eligibility criteria, implementation procedures, and monitoring arrangements for subprogram 1. Application of these regulations will be the responsibility of the subprogram 1 subexecuting agency, supervised by the Regional Control Unit.
- 3.8 Operating Regulations 2 set out eligibility criteria for individual projects to qualify for subprogram 2 funding and for potential beneficiaries of goods and services funded with those resources on a nonreimbursable basis. This set of regulations also spells out selection criteria for individual projects and procedures for applying these criteria in choosing and executing the projects. SUBDERE will be responsible for applying Operating Regulations 2.
- 3.9 Ratification of Operating Regulations 1 and 2 will be a condition precedent to the first disbursement of program funds.

5. The program's Regional Coordination Committee

- 3.10 A Regional Coordination Committee will be established that will be made up of representatives of SUBDERE, the regional government's Administrative Service, SERPLAC and SERNATUR, the Technical Units, and two private-sector members—one representing Chiloé residents and the other the Palena community. The committee's executive secretary will be appointed jointly by the Lake Region

governor and SUBDERE. The procedure for selecting the private-sector members is described in Operating Regulations 2.

- 3.11 The Coordination Committee's core terms of reference in the proposed program will be to: (i) ensure that projects sought by the community are placed on the portfolio of projects submitted for consideration for program funding; (ii) ensure that projects qualifying for the program are reviewed by SERNATUR to make sure they fit with the region's tourism policies and consider the views of the private sector; (iii) make sure that the National Environment Commission's Region X office has issued the environmental classification decisions for projects requiring one; and (iv) by reference to progress and supervision reports produced by the Regional Control Unit, track the program's status and keep Chiloé and Palena communities apprised of its progress, keeping records of comments and suggestions and giving the executing agency feedback.

B. Implementation arrangements for each subprogram

1. Subprogram 1. Heritage restoration of Chiloé's World Heritage List churches

- 3.12 The Diocese of Ancud, as subexecuting agency for this subprogram, will have the following core responsibilities: (i) organize the community and all the participating institutions to expedite execution of subprogram 1; (ii) conduct all calls for tenders, purchase and pay for all goods and services, account for expenditures under that subprogram and maintain files following procedures set out in the program's Operating Regulations 1; and (iii) provide such reports as the Bank or SUBDERE may request regarding the subprogram's funds and implementation.
- 3.13 The regional government will not be directly involved in implementing subprogram 1, as is standard procedure in investment project execution in that region; SUBDERE will directly supervise this subprogram. Likewise, a special procedure will be adopted to process project proposals entered in the National Investment System: the Planning Ministry (MIDEPLAN) assisted by the Regional Planning and Coordination Secretariat (SERPLAC) will review projects' technical merit and cost (not a regular socioeconomic appraisal). MIDEPLAN/SERPLAC will give priority to these projects to expedite their processing. Thus, for this component of the program, project selection and implementation will be governed by the agreement with the Diocese and Operating Regulations 1, which will prevail over the regional government's and MIDEPLAN's usual procedures. SUBDERE, through its Regional Control Unit, will register the projects that earned a favorable MIDEPLAN/SERPLAC recommendation and give authorization for them to begin.
- 3.14 Funds allotted for subprogram 1 will be transferred to the Ancud Diocese via the regional government's operating expenditure program. A special procedure would be followed for such transfers to the Diocese in fiscal year 2003, when resources

are to be used for the specific purposes stated in Operating Regulations 1; those outlays may be recognized as advance expenditures for the program (see paragraph 3.29). In this case, funds will be transferred to the Diocese via the Social Fund of the President of the Republic.

- 3.15 The Diocese of Ancud has opened a bank account to administer the subprogram funds. **The single commercial hiring of administrative personnel and setup of an accounting system acceptable to the Bank will be a condition precedent to the first disbursement of subprogram 1 funds.** Disbursements to the Diocese will take the form of advances against interim renderings of accounts by the Diocese to the Regional Control Unit, so construction work can proceed smoothly.
- 3.16 The Heritage List church restoration and repair projects—structural calculations, architectural plans, woodworking school, materials bank, training and development programs for guides, heritage information activities—will be executed by the Ancud Diocese with assistance from specialists in architectural and structural design applied to restoration work. The Diocese also will ensure that agencies with tourism marketing expertise participate in the design and operation of promotional initiatives.
- 3.17 **A condition precedent to the first disbursement of program funds will be the demonstration that subprogram 1 projects with a total cost of at least 1.025 billion Chilean pesos, equivalent to about US\$1.5 million at this writing—the amount planned for fiscal years 2003 and 2004—have received a favorable MIDEPLAN recommendation.**

2. Subprogram 2. Investments to further sustainable tourism development in Chiloé and Palena

- 3.18 Subprogram 2 will be executed following the regular procedure for regional investments, i.e., with regional government priority-setting and a technical-economic appraisal under the National Investment System.
- 3.19 Government departments and agencies, including municipalities and regional bureaus, will be responsible for filing project proposals that might qualify for subprogram 2 funds. Proposals from the private sector, civil society, groups, or individuals must be submitted to the National Investment System via one of those agencies.
- 3.20 A proposed project enters the Integrated Project Bank (called EBI) as a brief giving the project name, objective, a short description, and a preliminary cost estimate. Once the brief has been filed the project goes into the National Public Investment System, for which it will have to submit the brief generated earlier together with a preinvestment study in the form of a profile for projects, and terms of reference in the case of studies. If the project is to be part of subprogram 2, in addition to the

aforementioned documentation, the project or study's background file will have to include favorable SERNATUR certification on the initiative.

- 3.21 MIDEPLAN/SERPLAC can issue one of three recommendations: (i) file incomplete; (ii) technical objections; or (iii) recommended (no objections). If a project file receives the first or second of those recommendations it is sent back to the preparing unit for the comments to be addressed. Projects that receive a favorable recommendation can be selected by the regional governor for submittal and prioritization to the Regional Council. Once that body decides on priorities it forwards each project to the Regional Control Unit, which checks to make sure it is relevant and eligible according to the Operating Regulations and gives clearance for it to begin. Project implementation is the responsibility of the technical unit that proposed the initiative, under the Regional Control Unit's supervision. The selected Technical Units will be in charge of tendering, contracting, and monitoring construction work for projects classed as relevant. Payments to contractors and consultants will be centralized in the regional government.
- 3.22 The subprogram 2 funds will be channeled through the Chilean Regional Development Fund (FNDR) for disbursement following that Fund's usual procedures. SUBDERE will transfer the resources to the regional government in accordance with FNDR rules. The regional government will disburse the funds and render accounts to SUBDERE via the Regional Control Unit. SUBDERE will replenish the funds following FNDR procedures.
- 3.23 SUBDERE, through the RCU, will oversee progress in the activities and projects funded under the subprogram. The RCU will require support from CONAMA—and through it from CONAF and the National Women's Bureau—to ensure that the program's environmental and social strategy is properly applied.

C. Procurement

- 3.24 The procurement of goods and services to be funded out of the loan proceeds will be governed by the Bank's current procedures, which will be part of the loan contract. International competitive bidding will be mandatory for purchases of goods costing US\$350,000 and up, construction contracts worth US\$5 million or more (no works projects above that threshold are envisaged in the program), and consulting contracts over US\$200,000.
- 3.25 Purchases of goods and construction contracting for subprogram 1 must follow the procedures agreed on with the Bank pursuant to policy GS-311. Price will be used as a selection criterion for service providers in accordance with document GN-1679-3. When the selection is based on technical and price factors, the weight given to price may not exceed 20% of the selection factors.

- 3.26 To expedite the program's execution the Bank may conduct ex post reviews of goods procurement and construction contracts costing less than US\$350,000, individual consultant contracts below US\$50,000, and consulting firm contracts under US\$100,000.

D. Disbursement period and timetable

- 3.27 The program funds will be disbursed over a period of four years. The following table shows the disbursement schedule.

**Disbursement timetable by implementation year
(US\$000)**

Funding source by subprogram	TOTAL	Year 1		Year 2		Year 3		Year 4	
		IDB	Local	IDB	Local	IDB	Local	IDB	Local
Restoration of World Heritage List churches	2,800	230	100	820	350	620	260	290	130
Investments to further sustainable tourism development	12,200	890	380	2,560	1,100	2,560	1,100	2,530	1,080
Total	15,000	1,120	480	3,380	1,450	3,180	1,360	2,820	1,210

E. Revolving fund

- 3.28 To set up a revolving fund for the program, 5% of the loan proceeds will be deposited in the Chilean Treasury's dollar current account in the Central Bank of Chile. The first and subsequent disbursements will take the form of an advance of funds, upon SUBDERE's request, via the revolving fund. Subsequently the Bank will replenish the revolving fund upon request from SUBDERE, following Bank rules and procedures.

F. Recognition of prior expenditures and retroactive financing

- 3.29 Up to US\$500,000 in advance expenditures—incurred in the 18 months prior to approval of the loan by the Bank's Board of Executive Directors—to prepare and launch the program will be recognized against the local counterpart (US\$150,000) and the Bank's loan (US\$350,000). Only expenditures for which Bank procurement policies and procedures were followed may be recognized.

G. Monitoring and evaluation

1. Monitoring

- 3.30 The Regional Control Unit, with support from the program's Regional Coordination Committee, will be in charge of monitoring and evaluation, from the identification of investments eligible for funding to disbursements of funds and windup of the program.
- 3.31 The Regional Coordination Committee will meet at least every six months. It will make sure that the private sector participates and that the Operating Regulations are applied transparently.

2. Midterm review and final evaluation

- 3.32 A midterm review will be conducted when 50% of the program funds have been committed or 24 months after the date of the first disbursement, whichever occurs earlier. The review will look at the program's implementation progress, focusing on the following areas: (i) complete or partial restoration of Heritage List churches, chapel museums and murals; (ii) operation of the woodworking school; (iii) commissioning of studies, particularly studies that are preconditions for investments to be funded by the program—solid waste management plans, protected-area management plans, and documents for competitive application to the Public Space in Heritage Areas Program; (iv) master plan development; (v) comprehensive solid waste management plan and preparations for contracting for the respective investments; (vi) trail development, campground, and signage projects; (vii) application of the planned environmental control mechanisms; and (viii) achievement of performance indicators agreed on with the executing agency. The results of this review will be used by the Management mission to identify any actions that might be required.
- 3.33 In addition, a final evaluation of the program is provided for, including two workshops—one in Chiloé and one in Palena—with the municipalities, the Technical Units in Chiloé and Palena, and the private sector together, after the final disbursement. This evaluation will review the satisfaction of the groups in both provinces regarding: (i) tourism management; (ii) the results of the training projects and grants; (iii) the results of the first promotion campaign; and (iv) increase in the visitors' length of stay and spending. The results of the actions to make heritage church conservation sustainable will be evaluated separately.

3. Audits

- 3.34 Within 120 days after the end of each budget year the executing agency will provide the Bank with the program's financial statements audited by the Office of the Comptroller General of Chile.

IV. VIABILITY AND RISKS

A. Technical viability

- 4.1 Different types of individual projects will be funded under each of the two subprograms. The subprogram 1 investment projects have already been decided on and an itemized budget has been drawn up for them. The subprogram 2 investments are not being defined in advance, though several projects identified are currently at the design stage. That subprogram will be demand-driven, applying the eligibility and selection criteria set out in Operating Regulations 2.
- 4.2 As part of the preparatory work for the proposed operation the project team reviewed the subprogram 1 technical and economic proposal and found that it pursued the objective of restoring heritage monuments of interest to tourists and that its budget was reasonable. In the course of the program the subexecuting agency responsible for that subprogram must submit architectural plans for each church slated for restoration and the associated investments to MIDEPLAN for review. To expedite procurement for this subprogram the project team developed detailed procedures that are appended to Operating Regulations 1.
- 4.3 To ascertain whether the proposal to fund individual projects in subprogram 2 was viable the team examined two projects that had earned MIDEPLAN's unqualified recommendation. The team also looked at 54 initiatives currently at the EBI project brief stage and 23 being reviewed by MIDEPLAN.
- 4.4 The projects that received an unqualified MIDEPLAN recommendation are terms of reference for subprogram 2 studies that are considered priorities for the program. Most of the projects at the EBI brief stage fit with the strategy focuses for funding under the program; the proposals developed cover virtually all the target investment areas. Specifically, they deal with training of community members, monument restoration, museum construction, craft markets, scenic lookouts, fishing communities, protected-area and environmental management planning, and diagnostic assessment and design of a comprehensive solid waste management system.
- 4.5 The set of projects currently at the brief stage that have been logged into the National Investment System and are awaiting processing come to about US\$17 million. This shows that there are enough projects to absorb all the program resources via the planned funding facilities.

B. Environmental and social viability

- 4.6 The program's twin environmental strategy aims are to: (i) improve environmental quality in areas and communities associated with the tourist attractions the program

will be promoting; and (ii) prevent any undesirable environmental impacts from the program-funded investments. The environmental strategy is described in the program's environmental report, which was released to the public and has been discussed in public consultation forums.

- 4.7 To pursue the first of the above aims the environmental strategy supports investments in activities to remedy problems that affect the quality of the tourist experience. Among the action focuses are the Heritage List churches, currently in varying stages of disrepair and in need of restoration; the absence of a comprehensive solid waste management system needed to remedy health problems and water and visual pollution; the lack of household sewage disposal solutions in rural areas around the most popular tourist attractions; the lack of sanitary facilities for tourists; and the poor condition of the Ancud bus terminal.
- 4.8 To achieve the second environmental-strategy aim the program will fund three kinds of activities: (i) development of land-use plans and municipal environmental ordinances; (ii) protected-area management plans, and (iii) environmental impact assessments. The program also calls for restrictions on the use of wood from protected species even for heritage restoration work; the national environmental agency will be overseeing and monitoring materials selection.
- 4.9 Projects seeking funding from the program will have to follow procedures prescribed in Chilean legislation for projects to enter the National Investment System. Such initiatives must comply with the 1994 Environment Act (Law 19,300) and its Environmental Impact Assessment System (SEIA) regulations.
- 4.10 Not all project proposals have to go through the SEIA process. The regional bureau of the National Environment Commission (CONAMA) reviews project preinvestment studies and decides which projects must go through the SEIA. When a project does require the SEIA step the applicant institution must provide the Ministry of Planning and Cooperation with the Environmental Classification Ruling obtained in the environmental assessment process, as part of the investment-project application file. A project's environmental costs and benefits must be built into its cash flow. Costs include outlays for environmental impact studies or statements and mitigation, repair, restoration, compensation, or abandonment costs that come out of the environmental impact assessment (EIA). A favorable Environmental Classification Ruling may modify the original project formulation. If a project that has gone through this assessment process is turned down in the classification ruling, MIDEPLAN cannot recommend the initiative until a favorable ruling has been obtained.
- 4.11 One facet of the SEIA process is community involvement, which begins when an investment project sponsor submits its EIA. However, CONAMA recommends⁸

⁸ Early public participation in the Environmental Impact Assessment System. A guide for investment project sponsors. CONAMA, 1999.

that a project's sponsors organize participation events before it enters the system, since projects that have community ownership are more likely to succeed and usually cost less.

- 4.12 CONAMA will implement and monitor the program's environmental strategy through its Region X Directorate, with assistance from two agencies that have bureaus in the program area: (i) the National Forestry Corporation, which will enforce restrictions on the use of larch and Guateca cypress wood, and (ii) the National Women's Bureau, to make sure women are active participants—women being the prime beneficiaries of various subprogram 2 expenditure line items, notably goods and services provided to low-income households that provide lodging and food services; guide training, and setup of craft markets and fairs, among others.
- 4.13 From its review of the professional staff complement of CONAMA's Region X Directorate the project team concluded that this office has enough employees with the requisite technical expertise to monitor adherence to the program's environmental strategy.

C. Institutional viability

- 4.14 Institutional-capacity assessments were done of SUBDERE, including its National Control Units and its Region X Regional Control Unit; of the regional government for purposes of implementing the proposed program, and of the Diocese of Ancud.
- 4.15 One finding was that the Ancud Diocese needed strengthening since it has no experience in implementing Bank-funded projects. That will be accomplished by hiring an accountant, an administrator, and an assistant whose responsibilities are described in Operating Regulations 1. SUBDERE's Regional Development Division will be bolstered as well, hiring an additional accountant and purchasing a computer and software. To build capacity in the Regional Control Unit an architect and an office assistant will be added to its staff and computer equipment will be purchased.
- 4.16 The other agency examined to gauge its institutional capacity was the National Tourism Office (SERNATUR) in Region X, which is responsible for consultations with the private sector to ascertain its priorities; coordination with tourist boards and communities in the two provinces; helping to select training project beneficiaries and grant recipients; serving as Technical Unit for project preparation and implementation; and creation and maintenance of a database on tourism offerings and demand. The borrower, through the executing agency, will ask SERNATUR to provide the technical support that its regional office needs to carry out the functions assigned under the program.

D. Economic viability

- 4.17 The program is designed to help extend visitors' average length of stay and increase their average expenditure in the targeted region, improve the quality of tourist services, and increase the use of these services.
- 4.18 Since the bulk of tourist traffic to Chiloé is (and will continue to be) domestic, a large share of the economic returns yielded there will be economic transfers rather than a net economic gain. Nevertheless, these transfers are important, since they signify an influx of funds to a part of the country where incomes are well below the national income. Palena has better prospects for attracting foreign tourists because it is close to internationally known tourist draws; consequently, the projects planned for that province may yield net economic benefits in addition to the aforementioned income-redistribution benefit.
- 4.19 When the Bank runs economic analyses of the kinds of projects planned for subprogram 1 it typically uses the contingent evaluation technique. However, this method ends up being expensive relative to the restoration cost outlays, so in the project team's view it was not a desirable approach for subprogram 1. Chiloé's emblematic churches clearly are its leading tourist attraction; hence, in lieu of an economic appraisal, MIDEPLAN will examine the costs of the individual church restoration projects to make sure they are in line with regional costs and match the itemized budget reviewed by the analysis mission.
- 4.20 The executing agency will make sure that the program's Regional Coordination Committee ensures that projects declared eligible will clearly and directly improve a chargeable service or induce visitors to extend their stay or help preserve a tourist attraction or its surroundings, so the area will continue to draw visitors.
- 4.21 MIDEPLAN is doing case-by-case viability assessments of subprogram 2 individual projects. Though MIDEPLAN has methodology guides suitable for economic assessments of many kinds of projects it does not have a methodology for tourism project appraisal. It thus will have to develop analysis guidelines and the executing agency will be required to provide the Bank with analyses performed for the first bus terminal, scenic overlook, and market projects.
- 4.22 As was discussed in the "Frame of Reference" chapter of this proposal, tourism programs entail an assortment of activities that have to be coordinated to achieve the objective of sustainable increases in income. Since it is difficult to assess rates of return for multiple discrete actions (training, master plans, municipal ordinances, etc.) the analysts looked at the program as a whole. The gross benefit is the tourism spending stream: number of visitors multiplied by increase in length of stay multiplied by average incremental per capita expenditure (see the Logical Framework). It was assumed that 75% of this spending would go to defray providers' costs of delivering the purchased services, leaving an operating margin

of 25%. Capital cost less financial expenses was taken as the relevant investment amount. Under these assumptions the overall program internal rate of return comes to 13%. This is a financial rate of return, since a considerable portion of the cashflow represents transfers from other parts of Chile.

E. Risks

- 4.23 In the project team's assessment, the program's chief risk lies in the inexperience of the executing agency and Ancud Diocese in joint undertakings requiring adherence to Bank and borrower procedures. The following measures have been devised to attenuate this risk: (i) SUBDERE and the Diocese of Ancud will sign an agreement spelling out institutional responsibilities and administrative procedures for subprogram 1; (ii) the timetable for construction work and other activities will include precise targets and budgets for at least the first two years of subprogram 1; (iii) ad hoc procurement procedures for subprogram 1 will be outlined in an Annex D to the loan contract; (iv) an accountant and an administrator will be hired to assist the Diocese in executing the resource transfers; (v) disbursements for the program overall will be contingent on ratification of the Operating Regulations and favorable MIDEPLAN recommendations having been received for Heritage List church restoration projects worth a specified aggregate minimum amount; and (vi) status reviews of subprogram 1 will be a central focus of the program's monitoring generally and of the midterm review in particular.
- 4.24 One further risk would be a lack of institutional commitment to defray the costs of operating and maintaining the numerous small works planned in subprogram 2. To lessen this risk the program's Technical Units will undertake to cover those costs, and that obligation will be set out in Operating Regulations 2. Recipients of funds for individual projects would have to pledge to defray their operating and maintenance costs after the program ends.
- 4.25 Since subprogram 2 investment projects will be demand-driven rather than specified in advance and, for the most part, it will be up to the regional government to submit project proposals, one possible risk in the project team's view is that **projects that are not directly relevant to or not top priorities for sustainable tourism development in Chiloé and Palena could end up being proposed.** To counter that risk: (i) eligibility and selection criteria have been developed and inserted in Operating Regulations 2 to give priority to projects that will have a direct impact on increasing visitors' length of stay and average expenditure; (ii) representatives of the private sector and the benefiting communities will sit on the program's Regional Coordination Committee; (iii) the Bank's nonobjection must be secured before the first example of each bus terminal, scenic overlook and market project can be tendered; and (iv) a midterm review of the program will be conducted.

- 4.26 The project team recognizes that the region has **little practice, as yet, in giving the community a say in government decision-making on tourism projects**. This could pose a risk for tourism investment programs where private-sector involvement and community cooperation are crucial for investment outlays and for the quality of the tourist experience, respectively. But the team also recognizes that the process of bringing in civil society (the private sector and the community) will be a gradual one, and is confident that such partnerships will be workable in the program proposed here given the close tourism/civil society connections referred to earlier. To expedite this process the program calls for civil society representatives on the Regional Coordination Committee to perform tasks ranging from project proposal reviews to monitoring of the funded investment projects. To confirm that this arrangement is operating as planned the midterm review will carefully examine how it has worked to that point and suggest corrective measures if necessary.

F. Poverty and social equity classification

- 4.27 This operation does not qualify as a social equity enhancing project as described in the indicative targets mandated in the Bank's Eighth Replenishment (document AB-1704), nor does it qualify as a poverty-targeted investment (PTI).

**SUSTAINABLE COMMUNITY-BASED TOURISM DEVELOPMENT
IN CHILOÉ AND PALENA
(CH-0172)**

LOGICAL FRAMEWORK

Objectives	Indicators	Means of verification	Assumptions
Goals			
1. Increase income and employment for Chiloé and Palena residents engaged in the tourism trade.	1a. Increases, in days, of average length of stay of visitors staying in paid accommodations excluding campgrounds: <u>2003</u> <u>2008</u> Chiloé 3.77 4.15 Palena 3.77 4.15	Baseline survey and periodic surveys funded by the program.	
	1b. Increases, in thousands of January 2003 Chilean pesos, in average daily per capita spending by tourists staying in paid accommodations excluding campgrounds: <u>2003</u> <u>2008</u> Chiloé 12.33 13.60 Palena 15.56 17.10	Baseline survey and periodic surveys funded by the program.	
2. Assure sustainable maintenance of the World Heritage List churches in the Diocese of Ancud.	2a. Starting in 2008, entrance fees paid by tourists and tour operators and revenues from sales of Christmas cards, calendars, and literature produced in the publicity program (database) and others yield US\$50,000 annually.	Financial data compiled by the Diocese of Ancud.	
Purpose Increase visitor satisfaction ratings of Chiloé and Palena attractions and services.	1. Improvement in satisfaction index of visitors: <u>2003</u> <u>2008</u> Chiloé 6.68 6.85 Palena 6.58 6.80	Baseline survey and periodic surveys funded by the program.	

Objectives	Indicators	Means of verification	Assumptions
Subprogram 1			
Restoration of World Heritage List churches			
Purpose Tourists receive services when they visit Heritage List churches, which are open to the public on the schedule agreed on by the stakeholders.	Starting in 2007, at least 15,000 tourists pay to visit Heritage List churches, including qualified local guides and pertinent information provided.	Church visitor records and revenue collection in the Diocese of Ancud's semiannual reports.	The money collected is used for maintenance of the Heritage List churches.
COMPONENTS 1. Structural and architectural studies, final designs, costing of restoration works available.	1. 16 restoration project studies approved by National Monuments Council (CMN): 2 in 2003, 6 in 2004, 6 in 2005, 2 in 2007.	Records of CMN approvals.	
2. Heritage List churches restored.	2. At least nine churches (Chonchi, Quinchao, San Antonio de Colo, Ichuac, Chelín, Aldachildo, San Juan, Tenaún and Vilupulli) restored and made structurally sound, according to the studies. Three churches restored each year—2004, 2005 and 2006.	Diocese's annual monitoring report included in Regional Central Unit (RCU) annual monitoring report. Physical inspection by the Bank's Country Office in Chile (COF/CH).	Resources are available for timely emergency church repairs.
3. Emergency and minor repairs to Heritage List churches performed.	3. Number of emergencies detected (seven)/number of actions performed.	Ancud Diocese's annual monitoring report included in RCU annual monitoring report. Physical inspection by COF/CH.	Resources are available for timely emergency church repairs.
4. Carpenters trained to restore Heritage List churches.	4. By the end of 2006, at least 20 carpenters have been trained in Chiloé School church restoration techniques and participate in planned restoration.	Ancud Diocese's annual monitoring report included in RCU annual monitoring report. Physical inspection by COF/CH.	Sufficient resources are available to hire trained carpenters.
5. Local heritage guides trained.	5. Between 48 and 64 people are trained to explain the churches' history and architecture to tourists according to programming.	Ancud Diocese's annual monitoring report included in RCU annual monitoring report. Physical inspection by COF/CH.	The minimum number of trained guides necessary for this component are available.

Objectives	Indicators	Means of verification	Assumptions
6. Database in operation to ensure delivery of services and generate funds to maintain the Heritage List churches.	6. Database contains records to generate at least four products: technical documents on church restoration/repairs, photos suitable for tourist information brochures, other publications for sale.	Diocese of Ancud's annual monitoring report included in RCU annual monitoring report. Physical inspection by COF/CH. Samples of publications such as brochures, calendars, and Christmas cards.	There is visitor interest in buying the products.
Subprogram 2			
Investments to further sustainable tourism development			
Purpose Visitors are using tourism products and services offered under the agreed conditions.	Number of tourists visiting attractions and using services between December and February rises: <u>2003</u> <u>2008</u> (to be defined when the projects are identified)		
COMPONENTS			
1. Restoration and enhancement of the tourist attractions selected under the program.	1. When projects in the following categories are identified: national parks, trails, old fortifications, historic landscapes, public spaces in heritage areas, and significant architectural ensembles and typical zones, etc.	RCU annual monitoring report. Physical inspection by COF/CH.	The private sector makes complementary investments in selected tourist attractions. Trails, signage, and equipment are duly maintained.
2. Local labor, government employees, and tourism associations trained in the delivery of service to tourists.	2. Number of women and men trained in each category of beneficiaries.	RCU annual monitoring report.	Credit is available for persons trained so they can purchase needed equipment.
3. Studies and designs for projects developed for sustainable management of tourist attractions.	3. Number of studies and designs available.	File of final reports received by RCU.	
4. Tourism infrastructure works performed.	4. Number of tourism infrastructure works will be specified once they have been identified.	RCU annual monitoring report. Physical inspection by COF/CH.	The Technical Units adequately maintain the projects executed.

Objectives	Indicators	Means of verification	Assumptions
5. Information available for tourism planning, management, and promotion.	5. Will be specified once it is identified.	RCU annual monitoring report. Copy of reports delivered to COF/CCH.	
6. Goods and services transferred to low-income families to improve services offered.	6a. Number of beneficiary families 6b. Number of beneficiary families with women as heads of household.	Municipal business license registry. RCU annual monitoring report.	
Activities			The measures taken by the executing agency to support the Diocese of Ancud in the execution of the program are effective.
			The projects presented under subprogram 2 are pertinent and of top priority for the program.
			The community participation mechanisms are effective.

**SUSTAINABLE COMMUNITY-BASED TOURISM DEVELOPMENT
IN CHILOÉ AND PALENA
(CH-0172)**

PROCUREMENT PLAN

Item / Activity	Estimated cost (US\$000)	Funding		Type of procurement	Method	Scheduled date (year/half)
		IDB (%)	Local (%)			
1. RESTORATION OF CHILOÉ WORLD HERITAGE LIST CHURCHES						
Tools and safety equipment	208	70	30	Goods	LCB	1 / 1 st
Technological support equipment	130	70	30	Goods	LCB	1 / 1 st
Vehicles	83	70	30	Goods	LCB	1 / 1 st
Materials	713	70	30	Goods	LCB	Ongoing, over the course of the program
Equipment maintenance	130	70	30	Goods	LCB	
Operating expenses	177	70	30	Goods and services	CQ	
Human resources	698	70	30	Consulting services	CQ	
Studies, designs, engineering, architectural work	493	70	30	Consulting services	CQ	
Chiloé educational and encyclopedic material	168					
Subtotal	2,800					
TOTAL	2,800					

CQ – Call for qualifications

LCB –Local competitive bidding