

## PROGRAM TO SUPPORT SUSTAINABLE TOURISM DEVELOPMENT

(BO-0174)

### EXECUTIVE SUMMARY

<b>Borrower:</b>	Republic of Bolivia	
<b>Executing agency:</b>	Ministry of Foreign Trade and Investment (MCEI)	
<b>Amount and source:</b>	IDB: (FSO)	US\$ 10.0 million
	Local:	<u>US\$ 2.5 million</u>
	Total:	US\$ 12.5 million
<b>Financial terms and conditions:</b>	Execution period:	5 years
	Commitment period,	
	Subprogram 2 funds:	30 months
	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	5 years
	Interest rate:	1% first 10 years 2% next 30 years
	Inspection and supervision:	1%
	Credit fee:	0.50%
	Currency:	U.S. dollar
<b>Objectives:</b>	<p>The main objective of this program is to help establish Bolivia's image as an international tourist destination. The specific objectives are as follows: (i) to support improvements in the quality of tourism services through training and technical assistance for tourism entrepreneurs and workers, to provide the services demanded by international markets; and (ii) to set up sustainable tourism projects that incorporate private-sector resources and participation by local communities, municipios and nongovernmental organizations, in order to create replicable models to serve as examples of sustainability and best practices.</p>	
<b>Description:</b>	<p>The program is designed in two units: "Regulation and promotion of sustainable tourism" (Subprogram 1, US\$4.2 million); and "Investment in demonstration and small-scale projects" (Subprogram 2, US\$6.75 million). Subprogram 1 will facilitate private-sector investment by establishing incentives and obligations to change the behavior of the sector, to one of promoting sustainable tourism; this Subprogram</p>	

contains three components: (i) an Accreditation and Certification System (SAC) for sustainable tourism service providers; and (ii) regulations for the Promotion and Development of Tourism in Bolivia Act, aimed at protecting the country's cultural heritage, the environment and the user of tourism services; and (iii) promotion of the image of Bolivia as a tourist destination. Subprogram 2 will support execution of two groups of projects: (i) sustainable and replicable demonstration projects in the sustainable tourism sector carried out jointly by the public and private sectors; and (ii) small-scale projects that encourage participation by local communities and institutions in the protection of cultural and natural assets with potential as tourist attractions.

**The Bank's country and sector strategy:**

The Bank's strategy in Bolivia, as set out in the country paper (document GN-2020) approved by the Board of Executive Directors on 9 June 1999, makes the fight against poverty its key objective and proposes three lines of action consistent with three of the four pillars of the government's 1997-2002 Operational Action Plan: (i) economic growth and the creation of opportunities (opportunity pillar); (ii) human capital development and access to basic social services (equity pillar); and (iii) governance and consolidation of reforms (institutional pillar).

The proposed program addresses the three strategic thrusts proposed by the Bank for Bolivia in the following ways: by establishing incentives for the private sector to develop a new economic sector in the country, namely sustainable tourism; by encouraging community participation in the development of sustainable tourism projects and training workers to provide better quality services to tourists; and by introducing regulations for the sustainable tourism sector.

**Environmental and social review:**

The Committee on Environment and Social Impact (CESI) reviewed the operation's profile II and made the following recommendations: to design environmental eligibility criteria for demonstration projects; to ensure the existence of sufficient institutional capacity to implement objectives and monitor program indicators; and to develop terms of reference for analyzing the environmental and social impacts of the demonstration projects in the pre-investment phase. The CESI recommendations have been included in the Subprogram 2 operating regulations, which contain requirements on community participation and impact prevention and control measures, as criteria for eligibility and selection of the investments in this Subprogram. Each demonstration project will have an environmental management plan indicating the institutional level responsible for environmental supervision.

The CESI secretariat reviewed the program loan document on 5 November 2001 and verified that it has adequately incorporated the CESI's comments on the profile II.

**Benefits:** The program will provide funding for a variety of strategic actions for sustainable tourism development in Bolivia, including certification and regulation of the sector, implementation of demonstration projects and promotion of the country as a tourism destination; it will also elicit greater private-sector investment and encourage low-income communities living near “protected” zones to become involved in tourism and conservation activities in their areas.

The Accreditation and Certification System (SAC), and the sustainable tourism regulations components will lay foundations for the sector to be able to develop with the minimum quality standards required by international markets for this type of product. This will facilitate the marketing of tourism products and generate tourism demand by guaranteeing a product that complies with a number of minimum quality and environmental protection standards.

The implementation of pilot demonstration projects involving sustainable tourism and other small-scale projects will show communities and investors the viability of this activity in the form proposed, in other words through alliances between entrepreneurs, communities and the public sector. Execution of these projects will provide lessons learned on risk reduction in tourism activities and incentives for participation by new private investors. The targeted promotion of Bolivian tourism products in the world’s main tourism markets should generate greater demand and consequently higher earnings for the country.

**Risks:** **Private-sector contribution.** The risk of the private-sector contribution not materializing because of a shortage of credit has been mitigated by structuring the operation as one of cooperation between the public and private sectors, where the private sector will contribute assets financed with its own resources and support from other sources, and the public sector will transfer funds to cover the costs of environmental and social investments.

**Potential reduction of tourism demand for reasons of global security.** The type of tourism being targeted by the program is specialized; existing information suggests that this segment of demand tends to fluctuate less than the demand for mass tourism products.

**Insufficient institutional capacity of the executing agency.** This risk is being mitigated in the following ways: (i) establishment of a project coordinating unit (PCU) with staff selected through an open call for proposals; (ii) the National Tourism Board will act as adviser to the PCU throughout program execution; (iii) participation by beneficiary communities is an eligibility requirement for demonstration and small-scale projects; (iv) participation by two solid

organizations in the certification field, coordinated by the Bolivian Standardization, Metrology, Accreditation and Certification System (SNMAC), attached to the Office of the Deputy Minister for Industry and Domestic Commerce (VICI) of the Ministry of Economic Development (MDE); and (v) participation by the Financial System Development and Productive Sector Support Fund (FONDESIF), which will head up execution of a major part of the program's resources.

**Special  
contractual  
clauses:**

**1. Conditions precedent to disbursement:**

- (a) Signing of the subsidiary agreement for the transfer of funds between the Ministry of Finance and the MCEI, in its capacity as executing agency (paragraph 3.1).
- (b) Establishment of the PCU, plus hiring of the coordinator and one of the administrative-financial staff (paragraph 3.5).
- (c) Hiring of the Subprogram 2 coordinator (paragraph 3.22).
- (d) Signing of the coordination and cooperation agreement between the Ministry of Foreign Trade and Investment and MDE/VICI, in its capacity as executive secretariat of SNMAC (paragraph 3.7).
- (e) Signing of the execution agreement between the Ministry of Foreign Trade and Investment and FONDESIF (paragraph 3.20).
- (f) Implementation of the operating regulations (paragraphs 3.6 and 3.20), including model contracts for the execution of demonstration and small-scale projects (paragraph 3.29).

**2. Contractual conditions relating to execution.**

- (a) Six months after the contract takes effect, evidence that the consulting firm has been hired to evaluate results (paragraph 3.52).
- (b) Before starting the construction of tourist information centers, the signing of an agreement with the respective municipio setting out the conditions of transfer, and a commitment by the latter to assume operating and maintenance costs (paragraph 3.18).
- (c) The Bank will conduct a mid-term evaluation 24 months after the contract takes effect or when 40% of the loan proceeds have been disbursed, whichever is sooner (paragraph 3.49).
- (d) Before committing the second 50% of funds for Subprogram 2, MCEI, acting through the PCU, will need to show the Bank that the consulting firm for the Accreditation and Certification System component has begun work (paragraph 3.8).

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<b>Poverty-targeting and social sector classification:</b>	This operation qualifies as a social-equity enhancing project (paragraphs 5.21 and 5.22), as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). The program does not qualify as a poverty-targeted investment (PTI).
<b>Exceptions to Bank policy:</b>	None.
<b>Procurement:</b>	Current Bank policies will apply for procurement of goods, works, and services to be financed with program funds. International competitive bidding procedures will be required when Bank loan proceeds are used for procurement valued at or more than US\$250,000 in the case of goods, US\$2 million in the case of construction works, and US\$200,000 in the case of consulting services (paragraph 3.43).