



Board of Executive Directors

Simplified Procedure

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To: The Executive Directors

From: The Secretary

Subject: Brazil. Proposal for a loan for the "National Tourism Development Program in Salvador (PRODETUR Salvador)"

Basic Information: Loan type Specific Investment Operation (ESP)
Borrower Municipality of Salvador
Amount up to US\$52,512,340
Source Ordinary Capital

Inquiries to: Mercedes Velasco (extension 1680) or Annette Killmer (telephone Country Office in Brazil 5561-3317-4106)

Remarks: Management has determined that this loan proposal meets the requirements for presentation by Simplified Procedure, in accordance with Part III, Section 2 (paragraph 3.29(b)) of the Regulations of the Board of Executive Directors and document GN-1838-1, paragraph 2.

Reference: GN-1838-1(7/94), DR-398-17(1/15), GN-2849(3/16), CII/GN-316(3/16), PR-3992(2/13), DE-7/13

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**NATIONAL TOURISM DEVELOPMENT PROGRAM IN SALVADOR
(PRODETUR SALVADOR)**

(BR-L1412)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Mercedes Velasco (INE/RND) and Annette Killmer (RND/CBR), Project Team Co-leaders; Judith Morrison (SCL/GDI) (double-booking); David Corderi, Claudia Perazza, Elizabeth Chavez, and Yolanda Valle (INE/RND); Denise Levy and Christopher Johnson (VPS/ESG); Leise Estevanato and Edwin Julien Tachlian-Degras (FMP/CBR); and Guillermo Eschoyez (LEG/SGO).

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ELECTRONIC LINKS
REQUIRED
1. Multiyear execution plan
2. Annual work plan (AWP)
3. Monitoring and evaluation plan
4. Environmental and social management report (ESMR)
5. Procurement plan
OPTIONAL
1. Economic viability
2. Investment matrix
3. Analysis of institutional capacity for execution
4. Program Operations Manual
5. Analysis of the Salvador tourism market
6. Value chain analysis and action plan for the inclusion of people of African descent in the Salvador tourism sector
7. Strategic socioenvironmental assessment

ABBREVIATIONS

AWP	Annual work plan
COMTUR	Conselho Municipal de Turismo [Municipal Tourism Board]
CRF	Corporate Results Framework
ESM	Entidade Setorial Municipal [Municipal sector entity]
ESMP	Environmental and social management plan
ESMR	Environmental and social management report
ETB	Estratégia Turística de Bahia [Bahia Tourism Strategy]
FIPE	Fundação Instituto de Pesquisas Econômicas [Foundation of the Economic Research Institute]
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Geography and Statistics Institute]
IPAC	Instituto do Patrimônio Artístico e Cultural da Bahia [Artistic and Cultural Heritage Institute of the State of Bahia]
IPHAN	Instituto de Patrimônio Histórico e Artístico Nacional [National Institute of Historical and Artistic Heritage]
IRR	Internal rate of return
MTUR	Ministério de Turismo [Ministry of Tourism]
PCU	Unidade Coordenadora do PRODETUR [PRODETUR Coordination Unit]
PDITS	Plano de Desenvolvimento Integrado do Turismo Sustentável de Salvador [Plan for the Integrated Development of Sustainable Tourism in Salvador]
PES	Plano Estratégico de Salvador [Salvador Strategic Plan]
PNAD	Pesquisa Nacional por Amostra de Domicílios [National Household Sample Survey]
PNT	Plano Nacional de Turismo [National Tourism Plan]
PPPD	Public-private partnerships for development
PRODETUR	Programa de Desenvolvimento Turístico [Tourism Development Program]
PRT	Programa de Regionalização do Turismo [Tourism Regionalization Program]
RAIS	Relação Anual de Informações Sociais [Annual Social Information Report]
SBC	Special Bidding Committee
SECULT	Secretaria Municipal de Cultura e Turismo [Municipal Department of Culture and Tourism]
SETUR	Secretaria de Turismo do Estado de Bahia [Tourism Department of the State of Bahia]
SGIP	Sistema de Gestão Integrada do Programa [Integrated Program Management System]
SSA	Strategic socioenvironmental assessment
TCE	Tribunal de Contas dos Municípios do Estado da Bahia [State Audit Court of the Municípios of Bahia]
TSB	Todos os Santos Bay [Baía de Todos os Santos, “All Saints Bay”]
TTA	Typical tourism activity
UNESCO	United Nations Educational, Scientific, and Cultural Organization
WAL	Weighted average life

PROJECT SUMMARY

BRAZIL NATIONAL TOURISM DEVELOPMENT PROGRAM IN SALVADOR (PRODETUR SALVADOR) (BR-L1412)

Financial Terms and Conditions				
Borrower: Município of Salvador			Flexible Financing Facility^(a)	
			Amortization period:	25 years
Guarantor: Federative Republic of Brazil			Original WAL:	15.25 years
			Disbursement period:	5 years
Executing agency: Município of Salvador, Bahia, acting through its Municipal Department of Culture and Tourism (SECULT)			Grace period:	5.5 years
			Inspection and supervision fee:	^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital)	52,512,340	50%	Credit fee:	^(b)
Local	52,512,340	50%	Currency of approval:	U.S. dollars from the Bank's Ordinary Capital
Total	105,024,680	100%		
Project at a Glance				
Project objective/description: The program's general objective is to promote tourism development so as to increase income and formal employment generated for the population of Salvador with emphasis on the local culture and people of African descent. The specific objectives are to increase tourist expenditure in Salvador, as well as the portion of that expenditure benefitting the community and particularly the Afrodescendant population, by promoting cultural as well as sun and sand tourism, infrastructure improvement, and institutional support for tourism management.				
Special contractual conditions precedent to the first disbursement of the loan proceeds: To be provided on terms satisfactory to the Bank: (i) evidence that the program coordination unit (PCU) has been created (paragraph 3.1); (ii) evidence that the PCU staff have been appointed with members as described in paragraph 3.1; and (iii) an initial program report with content as described in paragraph 3.5.				
Special contractual execution conditions: To be provided on terms satisfactory to the Bank: (i) evidence that within 180 days, running from the loan contract signature date, the management support has been engaged for the PCU, and the service order has been issued for implementation of the Integrated Program Management System (SGIP) (paragraph 3.2); (ii) evidence that the technical and environmental works supervision firm has been engaged prior to start of the corresponding work (paragraph 3.2); (iii) evidence of legal possession and other necessary rights, as applicable, over the property where each work is to be built, prior to award of the respective work (paragraph 3.2); (iv) evidence that a cooperation instrument has entered into force between SECULT and the municipal sector entity (ESM), prior to start of activities within the jurisdiction of the ESM in question (paragraph 3.3); (v) evidence that the program Operations Manual has entered into force, including the environmental and social management plan (ESMP) as an annex (paragraph 3.4), and the Special Bidding Committee (SBC) has been established, prior to the first bidding process (paragraph 3.2); (vi) evidence that the socioenvironmental conditions set in chapter VI of the environmental and social management report (ESMR) have been met (paragraph 3.4); and (vii) evidence that the PCU social and environmental specialists have been engaged prior to the first bidding process for works, to be initiated upon entry into force of the loan contract (paragraph 3.1).				
Exceptions to Bank policies: None.				
Strategic Alignment				
Challenges:^(c)	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>
Crosscutting themes:^(d)	GD	<input checked="" type="checkbox"/>	CC	<input checked="" type="checkbox"/>
			IC	<input type="checkbox"/>

(a) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

(b) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

(c) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

(d) CC (Climate Change and Environmental Sustainability); GD (Gender Equality and Diversity); IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

- 1.1 **Tourism in Salvador: challenges and opportunities.** Salvador is the capital of the State of Bahia and with a population of 3 million is the largest city in Brazil's northeast region, and the third largest in the entire country (after São Paulo and Rio de Janeiro). Eighty-two percent of its population are people of African descent, making it the city with the largest number of Afrodescendants outside Africa anywhere in the world. Its annual GDP per capita is low in the national context, ranking 21st out of the country's 27 state capitals (R\$13,728 versus an average of R\$22,966),¹ and its very high unemployment rate is the highest of all state capitals (16.1% versus 8.9% nationally).² The city is marked by deep social inequality, since these problems impact the Afrodescendant community to a much greater extent. The average annual income of Afrodescendants in Salvador is 55% lower than the rest of the population, and their unemployment rate is 42% higher. Within the Afrodescendant community, women are the most affected, with average annual incomes 12% lower than their male counterparts.³
- 1.2 To meet this economic development and social equity challenge, the Município of Salvador has made tourism promotion a priority in its Salvador Strategic Plan (PES), given the sector's proven capacity to generate income and formal jobs. Formal employment in tourism in Salvador has grown by an annual average of 6.5% in the last five years (well above the 3.7% per year growth in other economic activities), to reach a total of 116,643 formal jobs (7% of total formal employment in the município).³ At present, with the arrival of 3,741,000 tourists per year and the existence of 5,173 formal businesses engaged in typical tourism activities (TTAs), the sector generates total annual revenue of R\$2.4 billion for the economy of Salvador, representing 6.4% of municipal GDP.⁴ The sector offers greater formal job opportunities for the Afrodescendant community: 77% of total formal employees in tourism are Afrodescendant, and 29% are women Afrodescendants, compared to 66% and 25%, respectively, in the other sectors of the economy.³
- 1.3 As Salvador is one of the country's main tourism cities (ranked fifth and sixth in Brazil in terms of domestic and international tourist arrivals, respectively, and first in terms of visitors anywhere in the Northeast),⁵ the Ministry of Tourism (MTUR) has made it a priority in the National Tourism Plan and Tourism Regionalization Program (PNT-PRT). Salvador also receives 32% of domestic tourists and 67% of foreign tourists visiting Bahia⁶ and is crucial for the sector's development in the state. The priorities of the Bahia Tourism Strategy (ETB) are innovation in tourism offerings (especially those based on Afrodescendant culture), upgrades to tourism destinations and services, and the economic integration of a broader range of the population in the tourism value chain, particularly in the more established destinations such as Salvador. In keeping with the Municipal Development

¹ Brazilian Geography and Statistics Institute (IBGE), 2010. Population Census.

² IBGE, third quarter 2015.

³ Ministry of Labor and Employment of Brazil. Annual Social Information Report (RAIS), 2013.

⁴ Foundation of the Economic Research Institute (FIEPE), 2012.

⁵ MTUR, 2013.

⁶ FIEPE, 2012.

Strategy (PES) and national and state tourism planning (PNT-PRT and ETB), the Municipal Department of Culture and Tourism (SECULT) has developed the [Plan for the Integrated Development of Sustainable Tourism in Salvador \(PDITS\)](#). This Plan has brought the public, private, and academic sectors and civil society together in a participatory process to map out a long-term strategy for sustainably and socially inclusive tourism development in the município.

- 1.4 Salvador's ability to attract tourism demand is based on its living culture, its historical heritage, and the beauty of its coastline.⁷ It is known for being the first capital of Brazil (1549-1763, founded by the Portuguese) and has a rich cultural heritage (both tangible and [intangible](#)) recognized nationally and internationally by the National Institute of Historical and Artistic Heritage (IPHAN) and UNESCO, for events such as the *Roda de Capoeira* and the *Samba de Roda* of Recôncavo Baiano region. It also has the largest Baroque-style historic city center in Latin America and the Caribbean, Pelourinho. Salvador's rich Afro-Brazilian culture (considered the Afro capital of Brazil) includes celebrated popular events and festivals such as the Salvador Carnival, the *Senhor do Bomfim and Iemanjá*, one of Brazil's most famous typical cuisines, important sites of worship and syncretic religious expressions of African origin, such as the Candomblé temples,⁸ artistic exhibitions (plastic, literary, musical, dance, and scenic arts), folk knowledge with arts and crafts masters such as the *Baianas de Acarajé*,⁹ and indigenous traditions such as *Capoeira*. It also has a beautiful coastal landscape with 50 kilometers of beaches, including some of the best-known of Bahia and the Northeast. The [PDITS](#) is built on the potential to turn these attractions to better use, in order to generate more income and jobs for the "*soteropolitana*" population¹⁰ and the Afrodescendant community. According to this plan, the following obstacles stand in the way of developing this potential:
- 1.5 **Insufficient development of tourism offerings.** According to the [market analyses](#) performed during program preparation,⁷ most tourists come to Salvador to visit relatives and friends (29%) or for business reasons (25%). Although fewer than one third travel for leisure (26%), this group generates the greatest revenue: their daily spending per capita in the município of R\$145 is well above that of the tourist visiting relatives (R\$64) or the business traveler (R\$110). To capture more of this leisure segment, Salvador needs to improve the cultural and beach attractions that are the reason why people travel there. These are concentrated in three areas of the município: (i) the Old Town/Barra/Ondina zone, which includes the Pelourinho historic city center; (ii) the beaches of the North Atlantic Coast; and (iii) the cultural and bohemian neighborhood of Rio Vermelho. Leisure tourists have shown an interest in staying longer (average stay currently 5.99 days) and spending more if improvements are made to cultural and sun and sand tourism products, particularly in terms of better public infrastructure in the form of streets and beaches, new authentic Afro-cultural experiences, more modern museums, better quality and innovation in private services, and better signage and information on the attractions and places to visit.⁷

⁷ SECULT and FIPE, 2014 and 2015. "[Salvador tourism market and competitiveness analysis](#)."

⁸ Serves as place of worship, residence, and socioeducational space for Afrodescendant groups.

⁹ Recognized as Intangible Heritage by the Artistic and Cultural Heritage Institute of the State of Bahia (IPAC).

¹⁰ Meaning Salvador-born or resident.

- 1.6 In addition, the structure of the tourism value chain is not generating fair opportunities for the Afrodescendant community. A [study](#)¹¹ done during program preparation shows that the leisure tourism value chain in Salvador depends heavily on the Afrodescendant community for its existence and competitiveness in two ways: (i) as producers and owners of the unique content of the cultural tourism that sets Salvador apart from other tourist destinations; and (ii) as labor force, accounting for up to 77% of formal employees in the sector (paragraph 1.2). Nonetheless, study also shows that the Afrodescendant community faces racial inequality within the tourism industry: (i) they are the least benefited racial group (they benefit from just 67% of tourist spending despite representing 77% of all formal employees, while other races represent 23% of formal employees and receive 33% of the expenditure) and earn less (1.8 times less than the other groups); (ii) they have less of a professional career track or progression and occupy fewer high-level posts than other races, even when they have similar education levels; there are few who reach management positions, including in cultural activities (between 0.5% and 4%, depending on the node or link in the chain); and (iii) they face high levels of informality: for every Afrodescendant formal employee in tourism there are 0.8 informal ones, who suffer greater social vulnerability. The study also reveals that this whole situation and indicators of racial inequality are further aggravated if the person of African descent is a woman.
- 1.7 According to this study, the main causes or factors explaining this problem are as follows: (i) lack of leadership at strategic levels: because there is weak representation and participation by Afrodescendants in decision-making for destination planning and management (paragraph 1.11); and (ii) lack of market access, owing to: (a) lack of knowledge about what tourists want and how to provide it, because of a low level of training in key areas such as business management and accounting, service quality, languages, tourism market and marketing, and product development and innovation (whereas almost 25% of white tourism employees have completed a high school education, the proportion drops to 7% in the case of Afrodescendants, and fewer than 1% have a university degree); (b) lack of suitable spaces such as squares, streets, traditional markets, and beaches to attract tourists and sell their products and services to them (paragraph 1.5); (c) lack of specific marketing: the shortage and poor marketing of ethnic/Afro experiences in potential markets limits the extent to which tourists recognize the value and price of their products (paragraphs 1.8 and 1.9); (d) discrimination: racism hinders their achievements in the working world, and the lack of racial consciousness in society and the sector leads to low levels of self-esteem and professional ambition; and (e) insufficient support to move out of the informal sector: particularly for Afrodescendants working as informal street sellers, whose behavior frequently draws criticism from tourists who feel they are being harassed. These activities could be regulated, however, and training could be given to improve the quality of the services provided and enhance their working conditions. These conclusions are confirmed by a [strategic socioenvironmental assessment \(SSA\)](#) of the program, performed during preparation.¹²
- 1.8 **Inefficient tourism marketing.** Salvador does not have a tourism marketing strategy based on market research to strengthen the image and positioning of the

¹¹ Navas-Alemán, 2015. "[Afrodescendant inclusive value chain analysis and action plan: Increasing the pro-Afro impact of PRODETUR Salvador.](#)"

¹² HIGESA, 2015. [SAA](#) of PRODETUR Salvador.

Afro culture (paragraph 1.9) that has performance and evaluation indicators. This limits its ability to capture the target segments. As a result, the two most influential factors driving the travel decision of leisure tourists are not destination promotion or advertising but information provided by friends or word of mouth (35%) and the experience of a previous trip (32%).⁷ This limits access to a potential audience not already familiar with Salvador but interested in learning about and enjoying its culture and coastline.

- 1.9 Thus, although Salvador is regarded as the capital of Afro-Brazilian culture, the city currently does not greatly publicize itself as such, and there are few references to Afro-Brazilian culture in the city's tourism image, apart from *Capoeira* or *Baianas de Acarajé*. This gives the destination an exotic flavor but also an incomplete, stereotyped version of Afro-Brazilian culture. Accordingly, few tourists know of the role played by the *soteropolitana* Afrodescendant community in Brazil's history, or understand the rich nuances of local cultural and religious practices that can be seen every day.¹¹
- 1.10 **Weak tourism management.** The municipal government has demonstrated its commitment and the priority given to development of the tourism sector and advancement of the Afrodescendant community by raising the hierarchical status of SECULT (making it independent of the former Development, Culture, and Tourism Department) and creating the Municipal Department of Reparation (SEMUR), responsible for public policy for the reparation and promotion of racial equality—one of the first institutions of its kind in the region. Salvador also has: (i) the Municipal Tourism Board (COMTUR), which is a participatory mechanism for public and private sector representatives to collaborate in the planning and management of municipal tourism; and (ii) the Municipal Council of Black Communities (CMCN), a participatory mechanism for municipal and black community representatives to propose and discuss municipal policies to promote racial equality. All of this creates a favorable political and institutional framework in Salvador for promoting tourism activity.
- 1.11 Nonetheless, those public administration agencies and participatory councils have shortcomings for planning and managing the tourism sector, partly owing to their recent implementation. Significant among these is that equal participation by the private sector and Afrodescendant civil society is not guaranteed in decision-making processes at the strategic level, such as in COMTUR.¹¹ The [PDITS](#) identifies the other key areas of tourism governance which display these shortcomings as: (i) the absence of mechanisms to provide statistics that systematically include information on the sector's economic and social impacts (particularly on the Afrodescendant community); (ii) shortage of training and equipment among public managers for competitive and sustainable tourism use of cultural heritage, both tangible and intangible; (iii) the lack of strategies for the future tourism development of new areas in Salvador, where the Afrodescendant population predominates; and (iv) the absence of municipal staff and facilities for information and services to tourists meeting their expectations (more than half of users demand online and offline applications, and an improvement of the existing tourism service centers). In addition, the município receives an ever larger number of requests from businesses for tourism investments in public-private partnerships, which would make it possible to tap private resources to promote the sector. Nonetheless, the município does not have the capacity to analyze, design, and

structure these partnerships from the public-interest standpoint and thus obtain social as well as private returns.

- 1.12 **Insufficient solid waste management.** Two thirds of leisure tourists are dissatisfied with urban waste removal in tourism areas.⁷ Not only does this make the places less attractive for tourists, it impairs environmental quality and quality of life for residents. In addition, the waste generated in tourist areas attracts collectors of recyclable material. Over 95% of them are poor Afrodescendants with a low educational level and high average age, looking for earning opportunities by selling recyclable materials, this being their main, and often only, source of income. These collectors want to join the three selective collection and recycling cooperatives existing in the tourist areas to obtain better sale prices from intermediaries and access support equipment to ensure adequate hygiene conditions. However, it is estimated that fewer than one third of the collectors have been able to join, since the cooperatives do not have enough equipment to serve their needs.¹²
- 1.13 The [diagnostic assessment](#) of the Salvador Urban Waste Removal Plan demonstrates that, to address the problem of urban waste removal, the município has sufficient means for collection (including the frequency of collection and personnel allocated to this task) and for final disposal and treatment of waste, which includes a waste dump subject to health control). But, the plan notes, the município lacks an effective temporary storage system (the existing above-ground containers currently occupy pedestrian space, cause visual pollution in tourist areas, and are less hygienic and safe than an underground facility, which elicits complaints from the tourists).⁷ To upgrade temporary storage, the município is making efforts in: (i) inspection; (ii) preventive educational campaigns to reduce the volume of waste produced and encourage proper disposal; (iii) installation of underground containers and selective collection; and (iv) installation of selective collection points for recyclable materials with participation from cooperatives. These efforts have been made in Barra, but need to be expanded to the rest of the tourist areas.¹²
- 1.14 **Risk of environmental degradation of the tourism coastline.** The bath quality index¹³ of Salvador's tourist beaches is good.¹⁴ Nonetheless, an [environmental analysis](#)¹² shows that an increase in tourism activity would pose a number of challenges for the conservation and sustainable use of this coastline, because currently: (i) there is no integrated coastal management plan in accordance with national regulations; (ii) some areas are environmentally fragile, because they lost native vegetation and high levels of biodiversity in the past; and (iii) they have no technical procedures or regulations for the environmental licensing and inspection of future works and interventions on the coast. Moreover, this study indicates that, owing to the city's geographic location, high urban density, and somewhat haphazard land occupation, Salvador is vulnerable to climate change that could cause heavier rainfall or rising sea levels and, thus, greater risk of coastal flooding that would affect the tourism sector. The immediate need, however, is to undertake specific in-depth studies on the most likely climate change scenarios, and the respective best adaptation and mitigation strategies that the city should adopt.¹²

¹³ Quality of water for bathing or recreation.

¹⁴ Institute of the Environment and Water Resources of the State of Bahia, 2011-2015.

- 1.15 The município has also not made the most of existing opportunities for the environmental certification of tourist beaches, which would contribute to the sustainability of their use and make them more attractive for the target demand, based on the revealed preferences of tourists in Salvador.⁷ This strategy has been employed successfully in other countries. In Costa Rica, a [study](#) gauged the effect of implementing the environmental measures of blue flag certification at 141 tourist beaches through fixed effects and propensity score matching using panel data for 2001-2008, revealing that such certification significantly increased tourist spending. Similar results were found by a [study](#) comparing panel data between certified and uncertified beaches on the tourism coast of Italy.
- 1.16 **Experience in the sector.** Under PRODETUR NE-I (loan 841/OC-BR) and PRODETUR NE-II (loan 1392/OC-BR), the State of Bahia made investments between 1994 and 2012 totaling US\$333 million (54% financed by the Bank) in seven tourist destinations. The investments in Salvador focused on expanding and improving the airport, implementing tourist signage, and restoring historic landmarks. The [ex post impact evaluation of PRODETUR NE-I](#) in Porto Seguro¹⁵ concluded that each dollar of public investment drove US\$7 of private investment and US\$1.82 in income for the Bahia economy, and demonstrated an internal rate of return (IRR) of 27%. However, the evaluation also concluded that this increase in tourism gave rise to social and environmental problems, for which reason PRODETUR NE-II focused on consolidating the socioenvironmental and institutional sustainability of first phase investments, achieving its development objectives and [satisfactory](#) performance. Between 1999 and 2010, the Bank supported the Monumenta Program for Preservation of Urban Historical and Cultural Sites (loan 1200/OC-BR) in 26 of the country's cities, with total financing of US\$62.5 million. Under this program, monuments in Pelourinho were restored at a total cost of R\$18.3 million, and performance was [satisfactory](#). Bank support to the Salvador tourism sector focused on providing basic infrastructure and restoring tangible cultural heritage. Yet operation ATN/JC-10081-BR and several [studies](#) have shown that greater efforts are needed in: (i) **development of tourism products** that create a use and financial sustainability for those historic buildings, covering other areas apart from Pelourinho and taking advantage of both tangible cultural heritage (monuments and historic buildings) and intangible cultural heritage (related to the Afrodescendant culture); and (ii) **improvement of tourism management** by strengthening and promoting collaboration between public, private, and civil society agents in the sector, to avoid disruption and inequity with the local community, particularly Afrodescendant groups. These areas are addressed by the proposed program, building on the Bank's previous operations.
- 1.17 The Bank is currently supporting the State of Bahia with PRODETUR Bahia (loan 2912/OC-BR) for a total amount of US\$84.7 million (60% financed by the Bank) to promote nautical and cultural tourism in the Todos os Santos Bay area. The proposed program has been coordinated between the município of Salvador and the state, for synergy of the investments under the two operations: (i) at the **territorial level** (the proposed program targets Salvador, which is one of Brazil's most visited destinations and the tourist gateway to Todos os Santos Bay, so its development is crucial as a hub for tourism flows to the bay area, which is at a very early stage of tourism development); and (ii) at the **thematic level** (the

¹⁵ With investments concentrated in providing airport, solid waste management, and sanitation services, upgrading of beaches and cultural historical heritage, and strengthening of the tourism industry.

investments of PRODETUR Bahia planned for Salvador target nautical tourism to complement the cultural and sun and sand tourism segments of PRODETUR Salvador). At the federal level, the Bank is supporting the program of Support for the National Tourism Development Program (PRODETUR Nacional) (loan 2229/OC-BR), approved in 2009 with Bank financing of US\$15 million, which seeks to strengthen MTUR's capacity to support state tourism planning and investment at the subnational level (state and municipal) under a comprehensive national strategy. After eight states, Salvador is the first município to prepare its PRODETUR program under the common PRODETUR Nacional guidelines with a methodology originally designed to be implemented in states and municípios.

- 1.18 Since all operations approved under the PRODETUR Nacional program up to now have been at the state level, the analysis for this program confirmed that the methodology is applicable at the municipal level, and prior experience preparing operations with the states was drawn upon. Specifically, for the first time of all state-level operations, the proposed program under PRODETUR Nacional: (i) incorporates social inclusion as a key, integral part of the whole program (not a few isolated investments in a single component in programs where the main focus is infrastructure development); and (ii) has been designed as a specific investment loan (not multiple-works), to ensure that the investments are consistent with the originally agreed objectives and outputs, streamline execution, provide greater certainty as to investment budget and local counterpart, and ensure specificity of the program's socioenvironmental management plan from the start of execution. Based on cumulative experience, Table 1 sets out other lessons learned and how they have been incorporated into the new program.

Table 1. Incorporation of Lessons Learned	
Main lesson	How reflected in the program
To avoid low-impact investments, there should be a market-oriented tourism development strategy that targets segments and destinations and is shared by local stakeholders.	The program targets cultural and sun and sand tourism in Salvador, based on the conclusions of ETB, PES, and PDITS , which were prepared jointly by the public, private, academic, and civil society sectors (paragraph 1.3). The design of the program is also based on tourism market information (paragraph 1.5), and its component 3 includes investments to deepen this knowledge (paragraph 1.26).
Tourism can and should be an effective tool of social inclusion , enabling the population and underprivileged groups living in tourist areas to benefit.	The program is based on a study for the inclusion of Afrodescendants (paragraph 1.6), the conclusions of which have been incorporated into the four components and their costs (paragraph 1.28). The program also includes: (i) an environmental and social management plan with mechanisms and procedures to ensure their inclusion (paragraph 2.3); (ii) specific indicators for Afrodescendants in its results matrix and monitoring and evaluation plan (paragraph 3.9); and (iii) information and training for Afrodescendants on procurement policies and processes (paragraph 3.6).
Tourism development must include a tangible environmental commitment in both planning and investment that ensures the conservation of natural resources.	The program's design has been based on a strategic environmental assessment , and its recommendations (paragraph 2.3) have been incorporated into the four components and their costs, particularly component 4 on environmental management (paragraph 1.27). The operation will be implemented according to an Operations Manual , which includes a social and environmental management plan (paragraph 2.3). Additionally, environmental impact studies and environmental supervision and audits of the works will be performed.
To ensure the future sustainability of works, local tourism governance should be strengthened .	The program not only finances physical works, but also includes: (i) a component 3 on institution-strengthening (paragraph 1.26) to bolster tourism planning and management capacities in the município; (ii) plans and agreements for cooperation with the municipal entities responsible for operating and maintaining the works (paragraph 3.3); and (iii) technical assistance, training, and coordination with the private sector and civil society (paragraph 1.24).
Owing to the crosscutting nature of the tourism sector, the programs require the involvement of various entities .	The program is based on an investment plan agreed upon between the executing agency and other participating municipal administrations. To coordinate and streamline execution, the program includes: (i) cooperation agreements with those entities (paragraph 3.3); (ii) a component 3 for strengthening the entities (paragraph 1.26); and (iii) an Operations Manual which specifies coordination mechanisms and functions, processes, and responsibilities for each entity (paragraph 3.4).

- 1.19 **Program design.** The program seeks to increase the incomes of *soteropolitano* households and reduce the social imbalance that affects the Afrodescendant community. To that end, the município and its PES have identified the tourism sector as a priority to generate economic development and promote social inclusion, through the capacity it has been demonstrating to generate jobs and income (paragraph 1.2). Empirical evidence for Brazil as a whole, and for Bahia and Salvador, confirms that tourism development can indeed be an effective means of increasing formal income and employment, and reducing social inequities. For Brazil as a whole, a number of [studies](#) show that the country has an additional welfare gain of US\$0.45 for every US\$1 of expenditure made by tourists, and that this gain benefits low-income households in particular, thereby reducing

income inequalities; and they confirm the job and income generating power of TTAs, especially in cultural and leisure tourism, which have a job creation capacity 2.8 times higher than the average for the Brazilian economy. In the State of Bahia, the [ex-post economic evaluation](#)¹⁶ of Bank-supported tourism investment similar to the proposed program¹⁶ confirmed the income gain, with every dollar of public investment generating US\$7 in private investment and US\$1.82 in the Bahia economy (paragraph 1.16). [Evaluations of similar programs](#) in other countries also report positive impacts on income and employment.¹⁷ These results are corroborated in Salvador by [official statistics](#) (paragraph 1.2) and an [economic evaluation of the sector](#) (paragraph 1.30), which show that: (i) formal employment in the tourism sector is growing faster than in other sectors (6.5% compared to 3.7% per year); (ii) tourism has a multiplier effect of 1.74 on the município's production; (iii) tourism generates a welfare gain in *soteropolitano* households of US\$0.67 per US\$1 of additional spending by leisure tourists (compared to a US\$0.45 gain per US\$1 at the national level), and 67% of these benefits are received by Afrodescendant households; (iv) tourism formally employs more Afrodescendants than other sectors (77% compared to 66%); and (v) tourism activity arising from the program will generate both a 6.6% increase in formal jobs in TTAs (with Afrodescendant beneficiaries accounting for 88.4% of this increase), and income gains that are three times larger among Afrodescendant families than in other population groups. To leverage this capacity of tourism to drive economic development and social inclusion, the program was designed around two pillars: (i) leveraging of the município's tourism potential; and (ii) participation of the Afrodescendant population in the sector.

- 1.20 With regard to the first of these pillars, the program leverages Salvador's potential for cultural and sun and sand tourism, as confirmed by evidence from tourism planning at the national, state, and municipal level (particularly PNT-PRT, ETB, and [PDITS](#)), and by [tourism market statistics](#). This information shows that these segments have capacity to generate a greater impact on the municipal economy, including higher average daily per capita spending by leisure tourists visiting Salvador for its culture and beaches (R\$145, compared to R\$110 spent by business travelers and R\$64 by those visiting relatives or friends). On the basis of this, the program's works investments were targeted to the three geographic areas of the município that have the largest number and highest quality of attractions and services to capture both segments—(i) Old Town/Barra/Ondina; (ii) North Atlantic Coast; and (iii) Rio Vermelho—but a low hotel occupancy rate (58%), which means there is an opportunity to make better use of the existing infrastructure.¹⁸ The preferences stated by leisure tourists in surveys on these attractions and services (particularly the upgrading of streets, markets, and beaches; enhancement of afro-culture experiences and museums; urban sanitation; quality of private services; and destination information),⁷ have been incorporated into the four components and their investments. Moreover, the [experiences and recommendations of international agencies](#) on the importance of strengthening tourism governance and environmental management in the development of cultural and sun and sand

¹⁶ By using rigorous methodologies recommended in the Bank's Technical Guidelines (document IDB-TN-229), which will also be used to evaluate the proposed program and allow for comparisons (paragraph 3.9).

¹⁷ Tourism Sector Framework Document (document GN-2779-3).

¹⁸ SECULT and Sindicato dos Hotéis, Restaurantes, Bares e Similares da Cidade Salvador [Salvador City Association of Hotels, Restaurants, Bars, and Similar Establishments], 2014.

tourism were also incorporated, with the aim of generating positive impacts at the local level.

- 1.21 With regard to the second pillar of Afrodescendant community participation, a diagnostic assessment was done on the tourism value chain in Salvador as a basis for drawing up an action plan in the sector for inclusion of the Afrodescendant community, stressing gender equity. Three zones were targeted (Pelourinho, Liberdade/Curuzu, and Itapúa) within the three tourist areas to be targeted by the program. These were selected on the basis of: (i) being low-income zones with a high predominance of Afrodescendant population; (ii) the wealth and attractions of Afro culture and their importance in Brazil's history; and (iii) the presence of Afrodescendants working in tourism and/or service initiatives and products managed by them, for which there is already tourism demand. This diagnostic assessment included an analysis of all TTAs, examining the differences in how persons of different race and gender are represented, skilled, and paid in each of the links in the tourism chain. This [diagnostic assessment and action plan](#) considered lessons learned and best practices from other similar contexts, where social and racial inclusion initiatives in tourism have been developed, together with previous studies in Salvador. The results have been incorporated into the four components of the program and their costs, with strategies and activities to increase opportunities for Afrodescendants within the sector. These included: (i) training, long-term technical support, formalization and improvement in the quality and innovation of their services and tourism products to adapt them to the expectations of the target demand; (ii) marketing and sales outlets in urban spaces and at beaches to facilitate access to the markets; and (iii) participation in strategic planning and decision-making in the sector. [International experiences and recommendations](#) confirm the importance of including this type of activity to increase the benefits that poor and/or vulnerable people, such as women and Afrodescendants, receive from tourism in developing countries, and prevent potential adverse social impacts.
- 1.22 **Strategic alignment.** The program is included in the 2016 Operational Program Report (document GN-2849) and consistent with two priority areas of the country strategy: (i) productivity and competitiveness, by improving the business climate for tourism; and (ii) support for public-private partnerships for development (PPPDs), by generating capacity in the município to attract and structure PPPDs in tourism projects. The program is also aligned with the three regional challenges of the Update to the Institutional Strategy 2010-2020: (i) social inclusion and equality, by generating greater inclusion of the Afrodescendant population; (ii) productivity and innovation, by developing new sun and sand and afro-cultural tourism products that will elicit higher levels of spending by tourists at the destination; and (iii) economic integration, by better positioning local firms in the tourism value chain. The program is also aligned with the crosscutting areas of: (i) gender equality and diversity; and (ii) climate change and environmental sustainability, through an increase in formal employment for Afrodescendant men and women, and an improvement in the environmental management of the tourism sector. The

program will also contribute¹⁹ to the following country development indicators of the Corporate Results Framework (CRF) 2016-2019: (i) formal employment of women; (ii) women beneficiaries of economic empowerment initiatives; (iii) professionals from the public and private sectors trained or assisted in economic integration; and (iv) beneficiaries (total and broken down by Afrodescendants) of improved management and sustainable use of natural capital. In addition, the program is consistent with the three dimensions of success of the [Tourism Sector Framework Document](#) (document GN-2779-3), inasmuch as it: (i) increases the economic benefits, through the promotion of cultural and sun and sand tourism products; (ii) increases the share of benefits received by the low-income and/or vulnerable population, through greater participation of the Afrodescendant community and women in the tourism value chain; and (iii) exploits natural and cultural heritage in a sustainable manner, through better management of solid waste and the tourism coastline and intangible cultural heritage.²⁰

B. Objectives, components, and cost

- 1.23 **Objectives.** The program's general objective is to promote tourism development so as to increase income and formal employment generated for the population of Salvador with emphasis on the local culture and people of African descent. The specific objectives are to increase tourist expenditure in Salvador, as well as the portion of that expenditure benefitting the community and particularly the Afrodescendant population, by promoting cultural as well as sun and sand tourism, infrastructure improvement, and institutional support for tourism management. The program will finance four components.
- 1.24 **Component 1. Competitive and socially inclusive tourism offerings.** This component seeks to promote cultural and sun and sand tourism products in areas with significant, proven tourism potential²¹ by developing the main tourism attractions that are public goods and structuring competitive value chains that are socially inclusive of the Afrodescendant community. The component includes

¹⁹ The program is also aligned with the CRF regional context indicator for the proportion of terrestrial and marine areas protected; with the CRF country development results indicator for roads built or upgraded; and with the CRF auxiliary country development results indicators for: (i) tourism destinations benefited by projects aimed at increasing tourism expenditure, local and social inclusion, and improving environmental management; and (ii) beneficiaries (total and broken down by Afrodescendants) of improved management and sustainable use of cultural capital.

²⁰ The program is also consistent with three priorities areas of the IDB Infrastructure Strategy on Sustainable Infrastructure for Competitiveness and Inclusive Growth (document GN-2710-5), inasmuch as it: (i) supports the environmentally and socially sustainable infrastructure, by promoting environmental management, climate change mitigation and adaptation, and inclusion of the Afrodescendant population in tourism investments; (ii) promotes a multisector agenda, by incorporating the involvement of multiple stakeholders and municipal public entities related to tourism; and (iii) promotes improvements in infrastructure governance, by strengthening tourism management.

²¹ The areas with significant tourism potential identified thus far are: (i) Old Town/Barra/Ondina (including Liberdade, Curuzu, and Avenida Sete de Setembro from Vitoria to Graca; (ii) North Atlantic Coast; and (iii) Rio Vermelho.

investments in: (i) tourism²² improvements to beaches, public squares, streets, and traditional markets; (ii) modernization of museums; (iii) development of a common system for quality management and commercialization of museums and cultural spaces in the municipio; (iv) tourist signage and interpretation; (v) technical assistance and training to human resources and firms in TTA for sustainability, innovation, quality improvement, certification of services and formalization, particularly for those provided by Afrodescendant men and women; and (vi) identification and support for the development of new tourism products based on Afro culture with special attention to those managed by Afrodescendant men and women, including awareness-raising in the sector to prevent discrimination (paragraph 2.3 (iv)); and (vii) training and technology system (hardware and software) for tourist security.

- 1.25 **Component 2. Tourism marketing.** This component seeks to improve the tourism positioning of Salvador as a cultural and sun and sand destination by increasing the proportion of leisure tourists that visit influenced by tourism promotion. The component includes the following investments: (i) preparation of the strategic plan for tourism marketing of Salvador, which will include strengthening the image of products based in the Afrodescendant community, including products that it manages, and the design of a system for the monitoring and evaluation of public investments in tourism promotion; (ii) implementation of the plan's priority actions; and (iii) training for marketing agents in the targeted outbound markets.
- 1.26 **Component 3. Institution-strengthening for tourism management.** This component seeks to strengthen tourism management capabilities at the municipal level, favoring action by the Municipal Tourism Board (COMTUR) and creating incentives for greater involvement of the Afrodescendant community in the sector. The component will finance investments in: (i) the preparation of institutional strengthening plans of the municipal administrations and participatory boards that are crucial for tourism activity; (ii) the implementation of those institutional strengthening plans with technical assistance, equipment, and training; (iii) the design and implementation of modern information technology tools for the collection, analysis, and dissemination of municipal statistics on the economic and social impacts of tourism, with a racial and gender breakdown, as applicable; (iv) preparation of tourism development strategies for new emerging tourist areas in the municipio, where there is a high concentration of Afrodescendant population; (v) modernization of the municipal system for tourist information and orientation, including technological innovation and improvement of municipal tourist assistance centers; and (vi) technical assistance and training to the municipal administration for the design, execution, control, and supervision of PPPDs in tourism investments, and promotion of private investment in tourism.
- 1.27 **Component 4. Environmental management.** This component seeks to enhance environmental management in the sector by improving solid waste management and coastal management in the tourist areas to be benefitted by the works under

²² Includes, according to design: public accesses to the beach and protective demarcation of dunes; leveling and repaving of roads; parking spaces and improvements in vehicle and pedestrian flows; revegetation and landscaping; urban furniture; street lighting; underground cabling; correction of wastewater and stormwater drainage systems; lifeguard, rescue and first aid posts, equipment and logistics centers for sports, cultural, and recreational activities; pedestrian walkways; bicycle paths; rest areas; scenic viewing points; sanitary services; signage and interpretation of heritage assets; and facilitation of locations and sites for services sold by Afrodescendant men and women and vulnerable groups.

Component 1. In solid waste management, the component will finance investments in: (i) underground containers and selective collection for better temporary storage of solid waste in streets; (ii) environmental education campaigns on waste management for the population, tourists, and the private sector; and (iii) technical assistance and equipment to support cooperatives of recyclable material collectors. In tourism coastal management, the component will finance investments in: (i) the preparation of, and implementation support for, plans for adaptation to climate change and coastal management of Salvador; (ii) recovery of native vegetation in tourist areas with special natural value or protected areas on the coast; (iii) environmental certification of tourist beaches; and (iv) design and implementation of technical and regulatory procedures for environmental inspection and licensing of works.

- 1.28 **Costs.** The total cost of the program is US\$105,024,680. The Bank will finance US\$52,512,340 from the Ordinary Capital. The local counterpart of US\$52,512,340 will be contributed by the Municipio of Salvador. Table 2 shows costs by source of financing and component.

Table 2. Program Cost (US\$)				
Investment category	IDB	Local	Total	%
Direct costs. Components:	46,100,000	52,320,000	98,420,000	93.71%
1. Competitive and socially inclusive tourism offerings	41,650,000	39,910,000	81,560,000	77.65%
2. Tourism marketing	2,000,000	3,300,000	5,300,000	5.05%
3. Institution-strengthening for tourism management	1,650,000	4,450,000	6,100,000	5.81%
4. Environmental management	800,000	4,660,000	5,460,000	5.20%
Administration: Monitoring, evaluation, and audits	6,412,340	192,340	6,604,680	6.29%
Total	52,512,340	52,512,340	105,024,680	100%
%	50%	50%	100%	

C. Key results indicators

- 1.29 The program has a [Results Framework](#), agreed upon with the borrower, that includes impact, outcome, and output indicators, along with their baselines and intermediate and final targets. According to the program's objectives, the main impacts will be increases in tourist spending, formal employment, and household incomes, particularly for Afrodescendant men and women. The beneficiaries will be the Salvador native and resident population, particularly 124,366 formal employees in TTAs, of whom 95,157 will be Afrodescendants, and of these 36,610 will be Afrodescendant women.
- 1.30 [Socioeconomic viability](#). To estimate the program's direct and indirect socioeconomic benefits, a social accounting matrix was developed for the Salvador economy, and simulations were run on how increases in tourism spending would alter the socioeconomic impact indicators (gross regional product, formal employment, family income, and poverty), using a 15-year time horizon spanning 2016-2030. The [analysis](#) shows that a conservative scenario (cumulative increase of 10% in the daily average per capita spending by 2030 and of 8% in the average length of stay by leisure tourists) has a significant impact on raising family income (1.4%) and creating new formal jobs (7,683 additional jobs, i.e., 6.6%

growth in total formal employment in TTAs, of whom 6,791 will be Afrodescendant employees, and of these 2,953 will be Afrodescendant women). This shows that a high proportion of the employment gains from the programs investments impact the Afrodescendant population, which benefit from 88.4% of total employment generated. This same scenario yields: (i) a net present value (NPV) of R\$264.8 million, and an IRR of 26.5%, which is calculated by netting out the present value of program benefits and all costs (investment, operation, and maintenance), at a 12% discount rate; and (ii) an increase in total family income of an additional R\$1,181.6 million in 2030. The distributive impact of the program was also estimated: the increase in income is three times greater for Afrodescendant families than for the rest (R\$890.96 million, compared to R\$290.61 million); and the gains are distributed among families of different income brackets, with a high proportion (52.5% or R\$620.7 million) for families with incomes of up to five times the minimum wage.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 2.1 The program is a specific investment loan with a five-year disbursement period, according to the following [preliminary financial plan](#):

Table 3. Disbursement Schedule (US\$ million)							
Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total	%
IDB	2,135,000	13,630,000	10,670,000	16,945,000	9,132,000	52,512,340	50
%	4	26	20	32	18	100	

B. Environmental and social safeguard risks

- 2.2 The operation is classified as category “B” under the Bank’s Environment and Safeguards Compliance Policy (Operational Policy OP-703). A [strategic socioenvironmental assessment \(SSA\)](#) was conducted during design that was the basis for the operation’s [environmental and social management report \(ESMR\)](#). This analysis confirms that the expected social and environmental impacts of the program are mostly positive, since it will: (i) foster a more equitable distribution of the benefits of tourism, creating income and formal job opportunities for Afrodescendants, and prioritizing women and other vulnerable groups, such as street sellers and recyclable material collectors; (ii) recover public commons and cultural venues, expanding access to basic services and creating urban leisure options that will improve the local population’s quality of life; (iii) restore cultural resources of international and regional importance; (iv) improve solid waste management; (v) reduce flood risks by improving stormwater drainage; (vi) recover public commons and tourism attractions in poor neighborhoods where Afrodescendants live; (vii) improve the environmental quality and management of coastal areas; and (viii) create mechanisms for strengthening and coordinating tourism management actors. Meanwhile, the greatest risks of adverse impacts are the temporary displacement of economic activities of vulnerable communities during the works construction phase of improvements to streets and beaches, and the degradation or pollution caused by greater pressure on tourist areas.
- 2.3 To minimize or prevent the potential adverse impacts, the program includes significant actions in all components, particularly component 4. These include:

(i) consultations, business support, and social monitoring of potentially affected parties (in particular vulnerable communities) during works construction for improvements to streets and beaches, to mitigate the risk of their temporary displacement; (ii) environmental education and underground containers for the separation and temporary storage of solid waste; (iii) sustainable management of cultural heritage, recovery of native vegetation along the coast, and environmental inspection of works; (iv) socially inclusive practices in the tourism sector through awareness-raising for the prevention of discrimination based on race and sex, registration and organization of pushcart trade, support for recyclable material collectors, and the generation of information and key statistics to implement inclusion strategies for Afrodescendants; (v) a strategy of communication and participation by the Afrodescendant and vulnerable community during the program; (vi) introduction of a system of environmental and social indicators for the operation; (vii) support for implementation of a coastal management improvement plan; and (viii) support for the executing agency, with social and environmental experts tasked with monitoring these actions (paragraph 3.1). The program is consistent with the Bank's Operational Policy OP-761 on Gender Equality in Development and includes measures to increase Afrodescendant women's participation in the tourism value chain and reduce women's vulnerability in the sector. The program does not include actions involving Quilombola communities. Should any action eventually involve them, a participation plan will be implemented pursuant to the Indigenous Peoples Policy (Operational Policy OP-765), as indicated in chapter VI of the ESMR (paragraph 3.4). An environmental and social management plan (ESMP) will specify procedures, actions, and responsibilities for the correct management and environmental and social monitoring of the program, and will form part of the program Operations Manual (paragraph 3.4). The Municipal Department of Culture and Tourism (SECULT) prepared a draft [ESMR](#).

C. Fiduciary risks

- 2.4 An [assessment of SECULT's capacity](#) for the programming, organization, execution, and control of the program was conducted using the Bank's Institutional Capacity Assessment System (ICAS). It concluded that the fiduciary risk level is medium and could be mitigated by implementing the following measures: (i) creation of a PRODETUR coordination unit (PCU) at SECULT with qualified staff; (ii) contracting of external audit and works supervision firms and management support to assist the PCU; (iii) training of this staff on the Bank's policies and procedures; (iv) implementation of a computerized Integrated Program Management System (SGIP) to integrate the planning, management, monitoring, and evaluation of the program's activities, resources, and results indicators, which has a financial and accounting management module that meets the Bank's accountability requirements; (v) creation of a Special Bidding Committee (SBC) at SECULT to process program procurements; and (vi) the inclusion of maintenance and cost recovery responsibilities and plans in the cooperation agreements between SECULT and the municipal governments that benefit from the works and equipment to be financed. These actions have been incorporated into the program's implementation arrangements (paragraphs 3.1 to 3.4) and its administrative budget (paragraph 1.28).

D. Other project risks

- 2.5 Based on the Bank's project risk management methodology, the program risks were identified and assessed, along with their respective mitigation measures,

performance indicators, and responsibility for monitoring and implementation. Additional to the environmental and social risks (paragraph 2.2) and fiduciary risks (paragraph 2.4), the main risks identified are the coordination difficulties that could arise with the participating entities and beneficiaries and the executing agency's limited capacity for program monitoring and supervision. The mitigation actions (including mechanisms for the executing agency to coordinate with participating entities, the private sector, and civil society during program execution, (paragraphs 3.3 and 3.4) and the strengthening of the executing agency's monitoring and supervision capability with specialized support staff and firms (paragraphs 3.1 and 3.2) are internalized in the design and respective cost of the operation.

- 2.6 **Fiscal position.** According to the rating methodology defined by the Treasury, the Município of Salvador has a strong fiscal position with low credit risk, satisfying all requirements of the current Fiscal Responsibility Law in Brazil. In recent years, the município has run primary surpluses, reduced its consolidated net debt, and contained the growth of payroll costs. As a result of all this, there is considered to be a substantial margin to assume the financial obligations of this loan.
- 2.7 **Scalability and sustainability of the financing.** The program is expected to be scalable and sustainable, inasmuch as: (i) its continuity is built into the investment strategies and priorities contained in municipal and state planning instruments (PES, ETB, and PDITS); (ii) it provides for the preparation of maintenance and cost recovery plans for the works to be financed; and (iii) it includes investments to improve key factors of the business climate (infrastructure, human and institutional resources) and to build capacity in the município to structure PPPDs, which will attract and leverage private investment.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Município of Salvador, and the guarantor will be the Federative Republic of Brazil. The borrower will also serve as executing agency, acting through the Municipal Department of Culture and Tourism (SECULT), which will be responsible for program administration, supervision, and evaluation. SECULT will be supported in this (paragraph 2.4) by a PRODETUR Coordination Unit (PCU) reporting directly to the office of the Municipal Secretary of Culture and Tourism that will have a multidisciplinary team of professional staff devoted exclusively to the program, consisting of at least a general coordinator and, subordinate to him or her, a tourism specialist, a specialist in projects and works, an institution-strengthening specialist, a monitoring and evaluation specialist, an administrative/financial specialist, and a procurement specialist. **As conditions precedent to the first disbursement, the PCU will have been created, and its staff appointed.** The PCU will also have an environmental specialist and a social specialist. As a special execution condition, the PCU social and environmental specialists will have been engaged prior to the first bidding process for works, to be initiated upon entry into force of the loan contact.
- 3.2 Pursuant to the recommendations of the [institutional assessment](#) (paragraph 2.4), the PCU will be assisted by management support in technical, administrative, financial, and bidding procedures and in program supervision (including environmental and societal oversight). It will also employ a Special Bidding

Committee (SBC) and Integrated Program Management System (SGIP) for the processing of bidding procedures and program administration and engage specialized supervision firms for technical and environmental supervision of the civil works. As special execution conditions: (i) within 180 days, running from the loan contract signature date, the management support will have been engaged, and the service order issued for implementation of the SGIP; (ii) the technical and environmental works supervision firm will have been engaged prior to start of the corresponding work; (iii) legal possession and other necessary rights will have been secured, as applicable, over the property where each work is to be built, prior to award of the respective work; and (iv) the Special Bidding Committee (SBC) will have been established, prior to the first bidding process.

- 3.3 SECULT will receive collaboration from other municipal sector entities (ESMs) or departments, according to their respective areas of jurisdiction for the investments to be financed by the program. No transfer of the loan proceeds to those ESMs is envisaged. This collaboration will be formalized in a program cooperation agreement between SECULT and the respective ESM that addresses the investments on which they are to collaborate and the obligations and responsibilities of either party in relation to those investments, in terms of: (i) technical support for studies and plans (relating to the preparation and approval of terms of reference and the formulation and review of reports); (ii) support for works execution and procurement of goods and services; and (iii) proper acceptance, operation, and maintenance of works or goods by the ESM, once completed. SECULT and the ESMs prepared drafts of such [cooperation agreements](#). As a special execution condition, a cooperation instrument will have entered into force between SECULT and the municipal sector entity (ESM), prior to start of activities within the jurisdiction of the ESM in question. Change in the nomenclature of borrower agencies or entities supporting it in program execution will be reported to the Bank and will entail no amendment to the contract.
- 3.4 The borrower will execute the program in accordance with the program Operations Manual previously agreed upon with the Bank, and any amendment to it will require the Bank's no objection. The program Operations Manual will include: (i) the mechanisms, including the Municipal Tourism Board (COMTUR) and the Municipal Council of Black Communities (CMCN), for coordination and participation of the private, academic, civil society, and Afrodescendant community sectors; (ii) the operation of a program work committee, chaired by SECULT, for technical coordination among SECULT, the ESMs, and PCU; (iii) the procedures and responsibilities of each ESM in the project cycle, pursuant to the respective agreements (paragraph 3.3); and (iv) the criteria for selection and prioritization of human resources and firms benefiting from the program, which include race, gender, and income level, as well as experience in the sector. SECULT prepared a draft [program Operations Manual](#). As a special execution condition, the program Operations Manual will have entered into force, including the environmental and social management plan (ESMP) as an annex (paragraph 2.3), prior to the first bidding process. As a special execution condition, the socioenvironmental conditions set in chapter VI of the [ESMR](#) will have been met (paragraph 2.3).
- 3.5 SECULT will deliver an initial program report to the Bank that includes: (i) the [program execution plan](#); (ii) a table showing the source and use of funds, with an investment calendar; (iii) evidence of the budget line items, both local and IDB, to finance the first year of implementation; (iv) the content of the progress reports;

and (v) the status of investments and works built with counterpart resources that will be subject to recognition of expenditures (paragraph 3.7). **As a condition precedent to the first disbursement, an initial program report will be provided.**

- 3.6 **Procurement.** All procurements of goods, works, and services for the program will be subject to Bank procurement policy documents GN-2349-9 and GN 2350-9, and will be conducted according to the arrangements agreed upon with SECULT and specified in Annex III, and pursuant to a [procurement plan](#) previously approved by the Bank. The program will provide, through SECULT and the PCU, information and training on the procurement policies and processes that make it easier for Afrodescendant men and women to participate in the bidding processes.
- 3.7 **Recognition of expenditures.** The Bank may recognize, as a charge against the local contribution, up to US\$15,000,000 (28% of the estimated local contribution) for eligible expenditures incurred by the borrower prior to the loan approval date, relating to: (i) tourism improvements to beaches, public squares, streets, and traditional markets; (ii) modernization of museums; (iii) tourist signage; (iv) tools for the collection and analysis of tourism statistics; (v) technological innovation in tourist information and orientation; (vi) solid waste management; and (vii) preparation of the [strategic socioenvironmental assessment \(SSA\)](#). For the expenditures to be eligible, requirements substantially similar to those of the loan contract must have been met. Such expenditures must have been incurred on or after the project profile approval date (6 April 2015), but in no case more than 18 months prior to the loan approval date.
- 3.8 **Audits.** External control will be exercised by the State Audit Court of the Municípios of Bahia (TCE), once eligible. Otherwise, SECULT will engage an independent audit firm to conduct the annual external audit of the program financial statements, pursuant to terms of reference approved by the Bank and its policies for the selection and contracting of audit firms (document AF-200).

B. Summary of arrangements for monitoring results

- 3.9 The program has a [monitoring and evaluation plan](#) agreed upon with the borrower, to be implemented with financing from the loan proceeds (paragraph 2.1). That plan includes: (i) indicators for monitoring and evaluation of the program's impact, baseline, and means of verification; (ii) the critical path for activities and outputs; (iii) the content, timetable, and responsibility for monitoring and evaluation instruments; and (iv) methodology, activities, and budget for implementing the plan. Using two complementary quasi-experimental methodologies (simulation model and difference in differences), this plan will make it possible to rigorously measure the impact that the program will have on the *soteropolitano* and Afrodescendant populations, including a breakdown by gender. The plan is consistent with the Bank's Technical Guidelines (document IDB/TN-229) for evaluating tourism impacts.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Development Challenges & Cross-cutting Themes		-Social Inclusion and Equality -Productivity and Innovation -Economic Integration -Gender Equality and Diversity -Climate Change and Environmental Sustainability		
Regional Context Indicators		-Proportion of terrestrial and marine areas protected (%)		
Country Development Results Indicators		-Formal employment of women (%) [*] -Beneficiaries of improved management and sustainable use of natural capital (#) [*] -Women beneficiaries of economic empowerment initiatives (#) [*] -Roads built or upgraded (km) -Professionals from public and private sectors trained or assisted in economic integration (#) [*]		
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix	GN-2850	Improve the Business Climate.		
Country Program Results Matrix	GN-2849	The intervention is included in the 2016 Operational Program.		
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Highly Evaluable	Weight	Maximum Score
		9.7		10
3. Evidence-based Assessment & Solution		9.6	33.33%	10
3.1 Program Diagnosis		3.0		
3.2 Proposed Interventions or Solutions		3.6		
3.3 Results Matrix Quality		3.0		
4. Ex ante Economic Analysis		10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0		
4.2 Identified and Quantified Benefits		1.5		
4.3 Identified and Quantified Costs		1.5		
4.4 Reasonable Assumptions		1.5		
4.5 Sensitivity Analysis		1.5		
5. Monitoring and Evaluation		9.6	33.33%	10
5.1 Monitoring Mechanisms		2.5		
5.2 Evaluation Plan		7.1		
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Medium		
Identified risks have been rated for magnitude and likelihood		Yes		
Mitigation measures have been identified for major risks		Yes		
Mitigation measures have indicators for tracking their implementation		Yes		
Environmental & social risk classification		B		
IV. IDB's Role - Additionality				
The project relies on the use of country systems				
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, Internal Audit. Procurement: Information System, Shopping Method.		
Non-Fiduciary				
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality				
Labor				
Environment				
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		Yes	The Bank provided technical assistance to the State of Bahia and Salvador through the Technical Cooperation ATN/JC-10081 -BR (development of diagnosis and plan of integration of cultural production and tourism); and support to Salvador in hiring consulting firms to advise and develop (i) diagnosis and plan for the inclusion of afrodescendants in the tourism sector; and (ii) assessment and intervention plan for the potential social and environmental impacts.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		Yes	The ex-post impact evaluation (simulation model and difference-in-difference) will: (i) improve knowledge of the structure of the tourism sector and its links with the rest of the local economy; and (ii) provide empirical evidence of specific multipliers and their impact of tourism on the local economy and the Afro-descendant community, including an assessment of the impact based on gender.	

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The objective of the program is to increase income and formal employment generated by tourism in Salvador, and particularly for people of African descent. The program will implement four components: 1) Development of Competitive Tourism Products that are Socially Inclusive; 2) Tourism Marketing; 3) Institutional Strengthening for Tourism Management; and 4) Environmental Management. The document is well structured, with a solid diagnosis of the problems facing Salvador with a focus on the situation of the group of Afrodescendants. It also describes well the role of the tourism sector within a municipal strategy aimed at boosting the sector as a major economic engine of the town and as a strategy for social and economic inclusion with the participation of people of African descent.

The proposed solution is clearly related to the magnitude of the problems identified. The results matrix reflects the objectives of the program and shows a clear vertical logic for each of the components. Key higher level indicators have values that are the result of the ex-ante economic analysis and targets based on information from previous projects or relevant studies. Lower level indicators reflect the design of the four components. The results matrix includes SMART indicators at the level of impacts, outcomes and outputs with their respective baseline values and goals and the means to collect this information. The documentation cites rigorous empirical evidence on the effectiveness of these types of programs in other countries; however, to date, there is no similar reliable evidence for the case of Brazil/Salvador.

The economic analysis is based on simulation models in accordance with the Bank's technical evaluation guidelines, which are also well recognized in the literature. The analysis simulates the benefits to the local economy as a result of the intervention. The benefits are based on a good understanding of the theory of change, as well as relevant information from previous projects in Brazil. The assumptions are reasonable. A sensitivity analysis is done and it is based on the key variables that can affect the main benefits of the program. The economic analysis presents the results of a conservative scenario where the IRR is 26.5%.

The monitoring and evaluation plan proposes two strategies to measure impact: 1) a design based on simulations for the local economy in accordance with the Bank's evaluation guidelines for tourism projects; and 2) a quasi-experimental design where the units of analysis are the hotels that benefit from the program. It is important to note that no rigorous impact evaluations in Brazil have been done for this type of programs; if the evaluation plan is well implemented, the first evaluation strategy will provide important evidence that can close the knowledge gap for this context. However, it should be noted that the quasi-experimental design runs the risk of not finding reliable results since the sample size is not appropriate based on the results of the power analysis. It will be important to consider increasing the number of hotels included in the evaluation sample.

The risks identified in the risk matrix seem reasonable and are classified as medium risk. Risks include mitigation actions and compliance indicators.

RESULTS MATRIX
([See Itemized/Full Results Matrix](#))

Project objective:	The program's general objective is to promote tourism development so as to increase income and formal employment generated for the population of Salvador with emphasis on the local culture and people of African descent. The specific objectives are to increase tourist expenditure in Salvador, as well as the portion of that expenditure benefitting the community and particularly the Afrodescendent population, by promoting cultural as well as sun and sand tourism, infrastructure improvement, and institutional support for tourism management.
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EXPECTED IMPACT

Indicators	Unit of measure	Baseline		Intermediate		Targets		Means of Verification
		Value	Year	Value	Year	Value	Year	
EXPECTED IMPACT: Increase income and formal employment generated by tourism for the population of Salvador, and particularly for people of African descent.								
Annual income of families in Salvador:								Source of baseline: National Household Sample Survey (PNAD), 2014.
(a) All families	R\$ million	87,526	2014	87,636	2020	88,707	2030	Source of intermediate and target value: ex ante economic evaluation of the program (scenario 4, conservative).
(b) Afrodescendant families	R\$ million	65,997	2014	66,080	2020	66,887	2030	Means of verification of intermediate and target value: PNAD, 2020 and 2030. Also, ex post evaluation of the program.
No. of formal employees in typical tourism activities (TTAs) in Salvador: ¹								Source of baseline: Annual Social Information Report (RAIS), 2013.
- Total ²	Employee	116,643	2013	117,358	2020	124,326	2030	Source of intermediate and target value: ex ante economic evaluation of the program (scenario 4, conservative).
- Afrodescendant men ³	Employee	88,366	2013	88,997	2020	95,157	2030	Means of verification of intermediate target value: RAIS, 2020 and 2030.
- Afrodescendant women ⁴	Employee	33,657	2013	33,970	2020	37,023	2030	

¹ This indicator also makes it possible to account for two country development indicators of the Bank's Corporate Results Framework (CRF): (i) contribution to the indicator for number of beneficiaries (total and broken down by Afrodescendants) of improved management and sustainable use of natural capital; and (ii) alignment with the auxiliary indicator for number of beneficiaries (total and broken down by Afrodescendants) of improved management and sustainable use of cultural capital, since both CRF indicators in this case are calculated and counted as formal employees in TTAs in Salvador, who are beneficiaries of this program.

² Includes Afrodescendants and non-Afrodescendants.

³ Includes Afrodescendant women and Afrodescendant men.

⁴ Aligned with the CRF country development indicator of the percentage of formal employment for women.

EXPECTED OUTCOMES

Expected outcomes	Unit of measure	Base level		Intermediate		Targets		Means of verification
		Value	Year	Value	Year	Value	Year	
EXPECTED OUTCOME: Increase tourist expenditure in Salvador and the portion of that expenditure benefitting the Afrodescendant community.								
Total expenditure of leisure tourists in Salvador	R\$ million	852.87	2014	880.11	2018	935.86	2020	Source of baseline: SECULT demand surveys, 2014. Source of intermediate and target value: ex ante economic evaluation of the program (scenario 4, conservative). Means of verification of the target value: SECULT demand surveys, 2020.
Average length of stay of leisure tourists in Salvador	Day	5.99	2014	6.08	2018	6.25	2020	
Daily average expenditure per capital of leisure tourists in Salvador	R\$/tourist/day	145.5	2015	148.0	2018	153.1	2020	Source of baseline: SECULT demand surveys, 2014. Source of intermediate and target value: ex ante economic evaluation of the program (scenario 4, conservative). Means of verification of the target value: SECULT demand surveys, 2020.
Proportion of tourist expenditure in Salvador benefitting Afrodescendants	%	67	2014	-	-	70	2020	Source of baseline: SECULT demand surveys, 2014. Source of intermediate and target value: ex ante economic evaluation of the program (scenario 4, conservative). Means of verification of the target value: SECULT demand surveys, 2020.
Tourism destinations benefited by projects to increase tourist expenditure, local and social inclusion, and improved environmental management ⁵	Destination	0	2015	1	2018	1	2020	The Bank's CRF indicator. The tourism destination is Salvador. Source and means of verification: SECULT.

⁵ Aligned with the CRF auxiliary country development indicator.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Brazil

Project number: BR-L1412

Name: National Tourism Development Program in Salvador
(PRODETUR Salvador)

Prepared by: Leise Estevanato, Financial Management Specialist
Edwin Tachlian, Procurement Senior Associate

I. EXECUTIVE SUMMARY

- 1.1 Fiduciary management was evaluated on the basis of meetings with the project teams of the Bank and the Municipal Department of Culture and Tourism (SECULT) of Salvador, and with various government authorities. Also considered were the preparation documents for the operation and the Bank's experience of working on other, similar competitiveness projects at the state government level.
- 1.2 Based on the assessment of SECULT, the fiduciary agreements applicable for program execution have been prepared for both procurement and financial management. The agreements also take into account the fiduciary context of the country and SECULT, the key points of which are summarized in the following paragraphs.

II. FIDUCIARY CONTEXT OF THE COUNTRY

- 2.1 Brazil has strong country fiduciary systems that enable and facilitate good management of administrative, financial, control, and procurement processes, in accordance with the principles of transparency, economy, and efficiency. The Bank continues to work with the Brazilian government to strengthen the country's fiduciary systems, with a view to their sustainable use.

III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 3.1 For program execution, SECULT will have a PRODETUR coordination unit (PCU) to be created and supported by a firm engaged to provide management support. The PCU will coordinate, plan, execute, monitor, and control activities related to the projects and actions financed with program resources.
- 3.2 The PCU will be responsible for fiduciary administration of the operation's execution, including budgeting, conducting and monitoring procurement and contracting processes, monitoring contract execution, and processing the authorization and recognition of expenditures and respective payments.

- 3.3 In addition, a Special Bidding Committee (SBC) will be established under the PCU for the duration of loan contract execution, running from its establishment date.
- 3.4 The SIGEF Integrated Fiscal Planning and Management System of the Município of Salvador is used to record, monitor, and control budgetary, financial, and asset execution, and is adopted by SECULT, integrated with the City Finance Department (SEFAZ) and the Municipal Department of Management (SEMGE).

IV. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 4.1 SECULT's capacity to schedule, organize, execute, and control the program, was assessed using the Bank's Institutional Capacity Assessment System (ICAS). The [assessment](#) concluded that, while SECULT has a satisfactory execution capacity, there are risks for program execution, particularly in relation to its lack of experience in the implementation and execution of Bank-funded projects, and unfamiliarity with the Bank's policies. These risks can be mitigated by a strengthening plan that includes the following actions:
- (i) Formal establishment of a PCU at SECULT, with staff qualified to execute the different components;
 - (ii) Implementation of a computerized Integrated Program Management System (SGIP) for integrated planning, management, recording, control, monitoring, and evaluation of the program's activities and resources and the Results Framework indicators. The system must also be able to issue the reports required in the loan contract, and have a financial and accounting management module that meets the requirements agreed upon with the Bank;
 - (iii) Creation of a Special Bidding Committee (SBC) at SECULT to process program procurements during the execution period;
 - (iv) Training in the Bank's policies and procedures for the personnel responsible for execution of the operation;
 - (v) Engagement of firms to provide external audit, works supervision, and management support services to the PCU; and
 - (vi) Inclusion of the respective operation, maintenance, and cost recovery plans in the cooperation agreements with the beneficiary municipal sector entities (ESMs) or departments of the procured works and equipment.

V. CONSIDERATIONS FOR THE GENERAL CONDITIONS AND SPECIAL PROVISIONS OF THE CONTRACT

- 5.1 **Special conditions precedent to the first disbursement.** To be provided on terms satisfactory to the Bank:

- a. Evidence that the program coordination unit (PCU) has been created, the PCU staff have been appointed;¹
- b. An initial program report.²

5.2 Special execution conditions. To be provided on terms satisfactory to the Bank:

- a. Evidence that the program Operations Manual has entered into force, including the environmental and social management plan (ESMP) as an annex, and the Special Bidding Committee (SBC) has been established, prior to the first bidding process.
- b. Evidence that within 180 days, running from the loan contract signature date, the management support has been engaged, and the service order has been issued for implementation of the Integrated Program Management System (SGIP).
- c. Evidence that the technical and environmental works supervision firm has been engaged prior to start of the corresponding work.
- d. Evidence of legal possession and other necessary rights, as applicable, over the property where each work is to be built, prior to award of the respective work.
- e. Evidence that a cooperation agreement has entered into force between SECULT and the municipal sector entity (ESM), prior to start of activities within the jurisdiction of the ESM in question.
- f. Evidence that the socioenvironmental conditions set in chapter VI of the environmental and social management report (ESMR) have been met.
- g. Evidence that the PCU social and environmental specialists have been engaged prior to the first bidding process for works, to be initiated upon entry into force of the loan contract.

VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

A. Execution of procurement and contracting processes

- 6.1** Procurement processes will be conducted through the PCU. Works, goods, and nonconsulting services will be procured in accordance with the “Policies for the procurement of works and goods financed by the Inter-American Development Bank” (document GN-2349-9). Consultants will be selected and contracted in accordance with the “Policies for the selection and contracting of consultants financed by the Inter-American Development Bank” (document GN-2350-9), both

¹ Consisting of at least a general coordinator and, subordinate to him or her, a tourism specialist, a specialist in projects and works, an institution-strengthening specialist, a monitoring and evaluation specialist, an administrative/financial specialist, and a procurement specialist.

² The report will include: (i) the program execution plan (PEP); (ii) a table showing the source and use of funds, with an investment calendar; (iii) evidence of the budget line items, both local and IDB, to finance the first year of implementation; (iv) the content of the progress reports; and (v) the status of investments and works built with counterpart resources that will be subject to recognition of expenditures incurred prior to the effective date of the loan contract.

of March 2011. Procurement processes will be reviewed by the Bank as specified in the [Procurement Plan](#).

B. Procurement of goods and nonconsulting services

- 6.2 Contracts for goods and nonconsulting services generated under the project and subject to international competitive bidding (ICB) will be executed using the standard bidding documents (SBDs) issued by the Bank. Competitive bidding processes subject to national competitive bidding (NCB) will use national bidding documents agreed upon with the Bank (or satisfactory to the Bank, if not yet agreed upon).
- 6.3 For purchases of off-the-shelf goods or services, the Bank will accept the use of the price list and electronic reverse auction systems through a purchasing platform authorized by the Bank, up to the amount set by the Bank for the use of ICB. In such cases, Section 1 of the Bank's procurement policies will continue to be applicable.
- 6.4 **Selection and contracting of consultants.** Contracts for consulting services generated under the project will be executed using the standard request for proposals (SRP) document issued by the Bank. The sector specialist will be responsible for reviewing the terms of reference for the contracting of consulting services.
- 6.5 **Procurement thresholds.** The threshold for use of ICB will be made available to the borrower or to the executing agency, as appropriate, at www.iadb.org/procurement. Below that threshold, the selection method will be determined according to the complexity and features of the procurement or contracting process, which must be reflected in the approved procurement plan.
- 6.6 **Recurrent expenditures** will be reviewed and accepted, provided that they do not violate the fundamental principles of economy, efficiency, competition, and transparency. Nonetheless, operating costs do not include the wages of civil servants.
- 6.7 **Domestic preference.** No margins of domestic preference will be applicable.
- 6.8 **Initial procurement plan.** The current proposal is attached. The agreed version may be updated during project execution, as circumstances require (see link, [Procurement Plan](#)).
- 6.9 **Procurement supervision.** All ICB, direct contracting, and consulting service selections for estimated amounts of more than US\$1 million will be subject to ex ante review. Given the project's features and the PCU's operational capacity, other processes will be subject to ex post review on an annual basis. The Bank may alter the review modality indicated in the Procurement Plan on the basis of the annual audit reviews.
- 6.10 **Recognition of expenditures.** The Bank may recognize, as a charge against the local contribution, up to US\$15,000,000 (28% of the estimated local contribution) for eligible expenditures incurred by the borrower prior to the loan approval date, relating to: (i) tourism improvements to beaches, public squares, streets, and traditional markets; (ii) modernization of museums; (iii) tourist signage; (iv) tools for the collection and analysis of tourism statistics; (v) technological innovation in tourist information and orientation; (vi) solid waste

management; and (vii) preparation of the strategic socioenvironmental assessment (SSA). For the expenditures to be eligible, requirements substantially similar to those of the loan contract must have been met. Such expenditures must have been incurred on or after the project profile approval date (6 April 2015), but in no case more than 18 months prior to the loan approval date.

- 6.11 **Procurement Plan.** The PCU will deliver updates to the Procurement Plan for the next 18 months (PA18) for the Bank's review and approval annually or as necessary. The program will provide information and training through SECULT and the PCU on procurement policies and processes that encourage Afrodescendant men and women to participate in competitive bidding processes.

C. Records and files

- 6.12 The program's records and files will meet at least the following conditions:
- a. Records/processes will contain original documentation, filed in chronological order.
 - b. Records/files will be stored in an appropriate place set aside for that purpose, with restricted access and preventive security such as a ban on smoking, access limited to authorized personnel, etc.
 - c. A record will be kept of all documentation filed.

VII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

A. Accounting and information system

- 7.1 The program's budgetary and financial execution will be performed directly using the municipio's system (SIGEF), which will be duly adapted for such purpose.
- 7.2 In relation to the financial module, in addition to the Bank's standardized reports, the "Financial Plan" report will be prepared, to support requests for advances of project resources.

B. Disbursements and flow of funds

- 7.3 The Program will operate with funds advanced by the Bank, to meet the project's actual liquidity needs. This will require submission of a disbursement request, accompanied by a financial plan reflecting the fund requirements for the period concerned, as previously agreed upon with the Bank. The PCU will submit an initial financial plan for the project to the Bank that will include the disbursement schedule for the whole execution period. That initial plan will give rise to the first plan, covering the first six months of execution, on the basis of which the first advance of funds will be planned. For future advances, at least 80% of the funds advanced must be accounted for, and a new financial plan submitted for the period in question.
- 7.4 For the purposes of accounting for the loan proceeds and local contribution resources, amounts paid in local currency will be converted into the currency of the operation in accordance with following exchange rules, which will be defined by the executing agency by the date of negotiation of the loan contract:

- (i) For expenses paid from the proceeds of advances of funds against the loan, the effective exchange rate on the date on which the currency of approval or currency of disbursement is converted into the local currency of the borrower country; and
- (ii) The effective exchange rate on the payment date, whichever source of financing is used.

7.5 Supporting documentation for expenditures will be subject to ex post review.

C. External control and reports

7.6 External control will be exercised by the State Audit Court of the Municípios of Bahia (TCE), once eligible, or by an independent audit firm previously selected and contracted in accordance with the Bank's specific policy and procedures. The borrower will deliver duly audited financial statements to the Bank, on an annual basis, within 120 days after the close of the fiscal year.

D. Fiduciary supervision plan

Supervision activity	Supervision plan			
	Nature and scope	Frequency	Responsibility	
			Bank	Third party
Operational	Review of physical progress of the component actions and activities, as compared with disbursements.	Six-monthly	Technical team	
	Review of status report	Six-monthly	Fiduciary and technical teams	SECULT
	Review of portfolio	Annual	Technical team	
Fiduciary	Ex ante and ex post review of disbursements and procurements	Annual	Fiduciary team	Fiduciary team and external auditors
	Financial and operational audit	Annual		TCE or external audit firm
	Review of disbursement requests and accompanying reports	Periodic	Fiduciary and technical teams	
	Inspection visit and analysis of internal controls and the control environment	Annual	Fiduciary team	
Completion	Annual budget allocation for project execution	Annual	Fiduciary team	SECULT
	Delivery of audited financial statements and operational audit	Annual	Fiduciary and technical teams	SECULT
	Conditions precedent to the first disbursement	Once	Fiduciary and technical teams	SECULT

7.7 The supervision plan as established is oriented toward a medium-risk operation. This plan may be altered during program execution in response to observed risk circumstances or to accommodate additional control needs determined by the Bank.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/16

Brazil. Loan ____/OC-BR to the Municipality of Salvador
National Tourism Development Program in Salvador
(PRODETUR Salvador)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Municipality of Salvador, as Borrower, and with the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the National Tourism Development Program in Salvador (PRODETUR Salvador). Such financing will be for an amount of up to US\$52,512,340 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2016)

LEG/SGO/CSC/IDBDOCS: 40115634
Pipeline No. BR-L1412