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EVALUATION REPORT

CABEI LOAN 596-L-013: \$15 MILLION

TOURISM INFRASTRUCTURE

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EVALUATION REPORT

CABEI-AID Loan 596-L-013 \$15 Million Tourism Infrastructure

I. SUMMARY

A. Statement of the Problem

This report and the recommendations contained herein are the result of joint efforts by the staffs of the Central American Bank for Economic Integration (CABEI) and the A.I.D. Regional Office for Central American Programs (ROCAP).

These efforts were directed at identifying the reasons for slow performance under the Loan and recommending certain revisions so as to pursue the original objectives of the Program. This is consistent with the strategy statement in the FY 1974 Development Assistance Program agreed to by all Central A.I.D. Mission Directors as follows: (a) A.I.D. will support tourism and tourism infrastructure, and (b) that this support will be primarily through regional organizations.

This paper will evaluate the current status of the Loan, its relevance to Central America at the present time and the desirability of moving forward on a revised course of action. The evaluation points to the following conclusions:

1. From an economic point of view e.g. employment opportunities, foreign exchange earnings, etc. - tourism is of growing importance to the region.
2. As foreseen in the CAP, the regionality of tourism development in Central America continues to be important and is being pursued by the collaborative efforts of all five Central American countries.
3. The competitiveness of the region with other tourism locales is becoming increasingly more evident.
4. The need and justification for this loan remain valid and important to both Central America and AID, especially in terms of its regional impact.

Dec. 1973

~~The principal problem has been the delays, unforeseen in the CAP, in completing feasibility studies.~~ The need for studies to adequately substantiate the disbursement of funds under the Loan was recognized. However, the time frame, within which it was anticipated that the studies would be completed, turned out to be extremely short. The loan paper did not take into account potential legal problems, changes in tourism management in the countries, legislative delays, difficulties in ordering priorities, and other time consuming obstacles all of which prevented the feasibility studies from being started and executed according to the original schedule. While it was anticipated that all feasibility studies would be completed by the beginning of calendar year 1974, in fact, the first study (Honduras) will not be finished until September 1975. This has cost the project a loss of nearly two years. ROCAP believed, on the basis of information available at the time the CAP was written, that the countries were prepared to move much faster than they actually did.

In retrospect, the time frame stated in the CAP for disbursement was unrealistic. The CAP stated that the Loan would be disbursed within four years from the time the initial CPs were met and March 31, 1977 was set as the TDD. However, CPs were not actually met until October 1973, which should have meant that Loan funds would be fully disbursed by October 1977. The CAP also projected that feasibility study and design work would be completed by the end of CY 1973. Considering the date the Loan was authorized (February 1973), the normal time required for CPs to be met, and the time consuming process of inviting bids and contracting consultants for both feasibility and design work, the time projections were much too short. Our experience to date indicates that this process (excluding the time needed to meet CPs) takes approximately 2 years.

The original projection of a three year bidding, contracting and construction period was and remains valid. This is demonstrated in the attached PERT which revised the implementation schedule consistent with ROCAP's recommendations. What is warranted now is an extension to make up for time lost during feasibility study phase. Only those projects that can be completed by the new proposed TDD will be approved for financing.

Loan funds set aside, but unused, for Promotion, and Technical Assistance and Training present different problems. For a variety of reasons, activities anticipated in the CAP to be financed under the Loan did not materialize. As explained in detail in the body of this paper, funds allocated in these two areas have not been tapped. Promotion efforts were carried out independently of AID loan financing by the countries. It has been so successful that tourism traffic to Central America grew by 18.4% over the 1970-73 period.

Training and Technical Assistance also have been achieved without the need for AID loan financing. In fact, graduates from tourism related schools in Central America have had difficulty in finding employment simply because, for the most part, training and technical assistance are carried out by individual hotels and other tourism industries.

In sum, through the combined efforts of AID and CABEI in CA tourism, the countries began to think about the economic value of the tourism industry and began to plan tourism development. The region has mobilized itself to the point where it is ready for infrastructure investments and at the present time, this loan is the only source of funding available in Central America for this purpose. 1/

B. Recommendations

The recommendations set forth below are based on the premise that projects will receive financing from AID loan funds on a first-come-first-serve basis. Hence, there may be sizeable

- 1/ In June 1975, representatives of the Inspector General's Office concluded a review of Loan 013. At an Exit Conference with ROCAP's officials on July 3, the Inspectors made the following comments:
1. That the Loan was approved prematurely, and prior to the preparation of sub-project feasibility studies;
 2. That since the five Central American governments have now mobilized themselves to use the resources provided under the Loan, a deobligation would not be recommended;
 3. That regional development banks tend to be more serious and effective than many national institutions, and that their use as recipients of AID loan funds should be supported.

investments in a few countries, rather than an equal allocation for each. However, the regional integrity of the program will be maintained since CABEI has agreed to provide the financing needed for those projects not covered with AID loan funds. ||

ROCAP's recommendations are:

1. Extend the TCD to March 31, 1979, and the TDD to June 30, 1979. Follow the attached PERT schedule requiring feasibility studies be completed on each project with enough time to allow for construction (to qualify for AID financing under the Loan). Projects will be financed on a first-come-first-serve basis. Those whose feasibility justification depends upon private investments will need commitments from the investors per the loan agreement prior to being eligible for AID financing.
2. Make funds currently under Promotion, and Training and Technical Assistance (\$1,000,000) available for financing infrastructure.

II. LOAN PURPOSE AND OBJECTIVES

Borrower	CABEI
Loan Agreement Signed	2/28/73
Amount of Loan	\$15 million
TDD? Amount of Project	\$20 million
T.C.D.	12/31/76
T.C.D.	3/31/77
Commitments	\$225,000
% Committed	1.5
Disbursements	None

The purposes of the Loan were to further stimulate tourism development in Central America by: (1) providing CABEI with funds for financing public infrastructure projects and related technical assistance in direct support of the Regional Tourism Development Program; (2) increasing the involvement of CABEI, the

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leading development finance institution of the area, in the field of promoting regional tourism development and, thereby, permitting CABEI to assume the leadership in handling and coordinating regional tourism programs; and (3) strengthening the Central American Integration movement. The overall program amounts to \$20 million: the \$15 million A.I.D. loan, a \$1.25 million contribution from CABEI which is committed and available, and a \$750,000 contribution from each of the five Central American countries, all of which are committed.

The Loan supports the Regional Tourism Development Program unanimously approved by the five Member Countries at the First Regional Tourism Conference held in Guatemala in September 1972. At this meeting CABEI was appointed the Financial Agent by the Member Countries for the purpose of channeling the necessary resources to implement the Resolutions of the Conference (the Acta).

The Central American Tourism Development Program endorsed the proposition that the most effective approach to tourism development throughout Central America is a regional one. The Acta proposes developing over a ten-year period, five tourism primary zones, one in each country, with a complementary number of secondary zones.^{1/} Thus, it was the purpose of this Loan to allocate the \$20 million to those projects specified in the Acta, whether primary or secondary zones, which could most rapidly be constructed over a four-year period, as initially envisioned. The Acta of this Conference was included as Annex V of the CAP.

^{1/} Selection of primary and secondary zones in the region was based largely on the findings of four studies:

A Regional Tourism Study in Central America, Porter International, 1965

A Market Analysis, Compton Advertising, Inc., 1969

A Five-Year Tourism Development Plan, SITCA, 1969

A Long Range Promotional and Financial Program, Tecniberia, 1972

In order to accomplish the purpose, ROCAP was to provide funds to CABEI to support sub-loans to the Central American countries for the purpose of developing infrastructure in areas outside the capital cities designated as the tourism zones to be developed. In addition, to support and increase the capacity of each country to attract tourists, ROCAP proposed to support both training/technical assistance and promotional activities. The Loan made available \$375,000 (plus a \$125,000 counterpart contribution) for financing tourism-related training and technical assistance, and \$375,000 (plus a \$125,000 counterpart contribution) for tourism promotion, to the Central American governments in response to the need for such financing stated by the five Member Countries in the Acta. Finally, the Loan provided \$300,000 for financing infrastructure feasibility studies (74% of this has been committed).

The strategy attempted to address five major constraints to increased tourism in Central America. These were (1) lack of public infrastructure and resulting reluctance of private sector to invest in hotels and related tourism facilities in the outlying areas of each country where the primary tourism attractions are located; (2) lack of adequate financing in these areas; (3) the relative inconvenience of travel to the most attractive tourist attractions in the region; (4) the substantial competition for tourist dollars from Mexico and the Caribbean; and (5) the tourist market's relative ignorance of the attractions of the area.

III. PROBLEM ANALYSIS

A. Infrastructure (93% of the Project) and Feasibility Studies (2% of the Project).

1. Chronology of Events

The Loan called for making allocations to specific projects in each country in areas of regional tourism promotion which could be completed over a four-year period. Specific regional public infrastructure activities supported by proposals from the private sector for tourism facilities construction were to have been selected. A country-by-country analysis of the progress to date is described below.

Honduras - Tornasal/Copán/Roatán

The CAP and Loan Agreement identified Tela as the primary tourism zone with Roatán and Copán as secondary zones. Out of the ~~five~~ CABEI member countries, Honduras has moved forward the fastest.

In November 1972, Honduras prepared terms of reference for a feasibility study and requested a loan from CABEI to fund the study. CABEI approved the loan in December 1972 (not AID financed). Plans were made to advertise for engineering proposals in March 1973. Proposals were opened on August 25, 1973; 15 firms showed interest. Robert Nathan was chosen to do the study in October 1973, but the GOH and the Consultant didn't come to an agreement on price until March 1974. The study began in June 1974 and was supposed to take 12 months.

Part of the final negotiated agreement was a large support input by the GOH. Unfortunately, this never came about because of Hurricane Fifi which hit Honduras in September 1974. The hurricane set the study back about 3 months and additional funding was provided by CABEI to make up for the lost GOH input. The study is now expected to be completed in September 1975.

During a visit to the consultants' offices on May 21, 1975, ROCAP Project Managers were shown a proposed master plan for Tornasal which called for \$3 million in external infrastructure leading to the actual site, \$22 million in internal infrastructure at the site and \$65 million in private investment in hotels and condominiums.

Nicaragua

San Juan del Sur was identified as the primary tourism zone with secondary zones at Masachapa, Granada and Corn Island. In February 1973, CABEI reported that the Tourism Institute had prepared a request for feasibility study funding but had not yet submitted it. In August 1973, CABEI reported that the request for funding had become bogged down in the Ministry of Finance

because of "legal problems". CABEI visited Tourism again in September and November 1973, and February 1974 to try to move the project along, but was not successful.

In April 1974, ROCAP requested USAID/Nicaragua's help in obtaining information on the status of the feasibility study request. It reported that the request was in the Ministry of Finance and that no action had been taken. (The Nicaraguan Tourism Institute is a Dirección General under the Ministry of Finance and was unable to act independently in representing the GON in arranging for a sub-loan from CABEI).

In May 1974, CABEI reported that the Tourism Institute wanted to ~~move its primary zone~~ to Managua. After several months delay, during which CABEI tried to convince them not to choose Managua as the primary zone, the GON decided that the zones to be studied would be the same as those in the loan paper.

In September 1974, CABEI received a request from the GON for a loan for \$500,000 for a feasibility study. The loan was signed and approved in December 1974.

One of the stipulations that CABEI requires of the borrowing governments is that they appoint a Project Coordinator. The Nicaragua Coordinator was considered unqualified by CABEI. In March 1975, ROCAP's Chief Regional Engineer met with the Project Coordinator to make sure (1) he understood how to rate study proposals, and (2) to question whether or not an evaluation committee had been set up. The Project Coordinator said that the committee consisted of a United Nations Underground Water Investigator, a former president of the Bank of Nicaragua, a professor of biology, and the President of the Chamber of Commerce. ROCAP reported immediately to CABEI on the unusual make-up of the evaluation committee stating its misgivings about the objectivity of the group.

On April 14, the Tourism Institute requested and received 18 or 19 proposals. On May 11, 1975, a notice was published in a local paper which stated that the Tourism Institute was voiding the previous invitations and asking for new invitations.

from any and all firms. The Tourism Institute declared that it was in the best interest of the country to give each firm an opportunity to review and revise its proposal if it so desired and to give other firms an opportunity to submit proposals. Both CABEI and ROCAP objected to this irregular procedure. In spite of the fact that this action by the Tourism Institute was highly unusual, CABEI's legal staff said that the GON was within its legal rights to call for new proposals. This will have to be watched carefully to make sure an eligible and qualified firm is chosen. The new date for submitting proposals is August 19.

CABEI has reported that one result of all this was the firing of the Project Coordinator in June and the agreement by the GON to choose a new Coordinator in accordance with CABEI requirements. CABEI has also suggested that the Institute hire a qualified advisor to help the evaluation committee, but to date has had no response.

ROCAP does not feel that the circumstances and reasons for voiding the IFP (Invitation for Proposals) have been satisfactorily explained. We have requested CABEI to initiate an investigation of the facts surrounding the case and advise ROCAP whether or not, in the opinion of CABEI, the Nicaraguan Tourism Institute has acted in accordance with the governing CABEI and ROCAP regulations in this matter.

Guatemala

On the basis of the Tikal National Park Study, completed by the U.S. National Park Service in 1971, the GOG named TIKAL as its primary tourism attraction and designated TIKAL as its priority project for financing under Loan 596-L-013. In keeping with GOG development priorities and requirements, works to be financed at TIKAL are ruins restoration, airport improvement, and road renovation. These are included in the CAP and Loan Agreement.

Early in 1972, the Planning Council determined that an economic/feasibility analysis should be made in order to provide a plan for public and private investment in the TIKAL area. The decision to do the study "in house" rather than by consultant

was made over some strong objections by ROCAP in January 1973. The study was headed by a representative from the OAS whose work group consisted of people from the GOG, AID and other U.S. agencies. The study was completed in February 1974. It was reviewed by both ROCAP and CABEI and was determined inadequate as an economic justification for airport and road construction. The Planning Council agreed and said that the economic justification would be strengthened.

In April 1974, the GOG presented a request for a sub-loan under 013 for \$7.0 million for a new airport, road construction, ruins restoration and complimentary services. In May 1975, the Planning Council named a committee, made up of seven different agencies, which was to be responsible for the TIKAL Project. CABEI agreed in principle to the make-up of the loan committee in July 1974, but insisted that economic justification studies and design work had to be completed before the sub-loan would be considered.

The TIKAL Project Committee decided to go ahead with the advertisement for proposals on the basis of a promise of \$200,000 from the Ministry to do the study, even though preliminary estimates of engineering costs by ROCAP/CABEI engineers indicated a cost of over \$750,000. Invitations for proposals from engineering firms to do final design of the highway and airport were advertised in December 1974, and opened in January 1975. Firms for both projects were chosen in March and a letter, with copies of the proposals was sent to CABEI in April. The submission hinted that CABEI financing might be needed to fund the shortfall. The design contracts are expected to be approved at any time, and will take about five months to complete. If the present schedule is met, the sub-loan should be signed by February 1976 for construction to start in April 1976.

Costa Rica

The Acta and CAP identified Bahía de Culebra as the primary tourism zone with Póas Volcano, Irazú Volcano, Quepos, and the Liberia Airport as secondary zones. Costa Rica immediately took the initiative and started preparing terms of reference for the feasibility study. In August 1973, Costa Rica submitted a re-

quest for the feasibility study loan to CABEI. The CABEI Board of Directors did not approve the loan until April 1974. Reasons for this delay are not known.

In June 1974, Costa Rica had national elections. A new president was elected, new ministers appointed, and four of the seven members of the Tourism Institute Board of Directors were changed. In August 1974, the Director of Tourism went to Tegucigalpa to discuss the loan and the appointment of a Project Coordinator. The feasibility study loan was signed in December 1974, and was sent to the Legislature for approval. It has remained there to date. CABEI is hopeful that it will be approved by December 1975.

In April 1975, the GOCR came in with a request for financing improvements to Volcán Póas Park. The feasibility study has been completed and calls for 7 kilometers of road improvements, shelters, a visitors center, parking lots, viewing platforms, etc. The project is estimated at close to \$1.2 million and is now being reviewed by CABEI.

El Salvador

ICACAL was identified as the tourism zone to be developed in El Salvador. In February 1973, El Salvador informed CABEI that it would probably use IDB funds to finance a country wide feasibility study which would focus on ICACAL as the primary tourism zone. However, in September 1973, the GOES decided to do the feasibility study and design documents with its own resources. CABEI advised against it and pointed out that if the study were rejected by either ROCAP or CABEI, a whole year would be lost.

Despite repeated trips to El Salvador by CABEI and ROCAP to urge that something be started, there was little activity between September 1973 and May 1974. During the latter month, El Salvador reported that it had received assurances from the IDB that funds for tourism infrastructure development would be available.

In September 1974, the GOES signed a contract with Robert Nathan & Associates for a country-wide feasibility study with IDB funding. The study is to be completed in September 1975. Recent conversations with SITCA indicate that El Salvador is shifting its primary tourism zone from ICACAL to Costa del Sol. The study is still on schedule.

2. Analysis

The attached construction and disbursement schedules (Attachments I and II) taken from the CAP indicate that construction on all projects should be well underway and that disbursements should be in the range of 40% - 45%. However, as the above descriptions of accomplishments indicate, this is not the case. For a variety of reasons, CABEI has not been able to achieve the level of loan disbursements contemplated. As indicated in the "Statement of the Problem", for a variety of reasons our initial planning for the loan may have been unrealistic; and, the loan itself appears to have been premature. Problems unforeseen at the outset, in addition to an unrealistic time frame in the preliminary stages, contributed to the long delays. The Central American countries have been very slow in contracting and completing feasibility studies and final design. Factors contributing to this inactivity include; a) a basic unfamiliarity, on the part of all the C.A. countries, with the project and its purpose, and b) a lack of authority on the part of the Tourism Institutes to develop and execute tourism policies and projects on their own. Of the five Tourism Institutes, Costa Rica, Guatemala, and El Salvador are autonomous organizations. The Honduras Institute is a Dirección General under the President. A commission appointed by the President sets the Institute's policies. The Nicaraguan Institute is a Dirección General under the Ministry of Finance. In addition, the countries have been indecisive on their tourism zones, priorities, and terms of reference for feasibility studies; the Tourism Institutes have not been able to get feasibility study loans approved by their respective legislative bodies; and there have been changes in governments.

Nevertheless, the region is now geared up to begin the Tourism-related infrastructure investments, and is ready to initiate the bidding, contracting and construction. The three-

year period proposed in the JAP for this construction phase appears to remain valid. The attached PERT indicates the time frame currently anticipated for each project, and pages one and two of Attachment III, "Infrastructure Cost Comparison", clearly demonstrate that project costs, which have increased by nearly 100% since the original estimates, will absorb the entire AID loan. To maintain the regional integrity of the project, CABEI has agreed to finance those projects not eligible for AID financing under the Loan.

Eligibility will be determined on a first-come-first-serve basis. The requirements outlined in Section 5.01 of the Loan Agreement must be met before any project will be approved for financing. Page three of Attachment III gives a breakdown of all projects under the Loan. Those projects which will require private investments, in addition to AID loan financing, in order to accommodate tourist traffic are so identified. Before any loan funds are disbursed for one of these projects, private investor commitments, as indicated in Section 5.01(v) of the Loan Agreement and outlined on the attached PERT, will have to be forthcoming.

At the outset no project will be excluded the opportunity of receiving Loan financing. However, in order to receive financing, a feasibility study on any given project will have to be completed leaving sufficient time for construction (see PERT). In addition, for any project that requires private investments, commitments will have to be forthcoming before financing will be approved. It should be noted that in the event private investors do not come forth, thereby, making ineligible for AID funding those projects requiring such investment, there will still be sufficient project costs (see page 3 of Attachment III, column entitled, "No Restrictions on Financing") to absorb all loan funds.

B. Training and Technical Assistance (2.5% of the Project).

One of the resolutions of the Acta dealt with the need for personnel training for tourism services, and proposed that CABEI make a survey of regional needs, to be followed by planning for future regional and national training centers by SITCA

and the five Tourism Institutes. As a response to this resolution, the Loan set aside \$500,000 (\$375,000 from the AID contribution) for re-lending to CABEI's Member Countries for training and technical assistance.

Responding to a condition precedent in the Loan Agreement (Section 3.01 (d)) CABEI, after consulting with SITCA, submitted a plan which was accepted by ROCAP. This plan set forth the criteria, procedures, terms and conditions, and arrangements for financing the training program and related technical assistance. While private sector tourism industry employees were to be trained, the plan also called for funds to be used in the Central American public sector primarily to finance the training of Central American Tourism Institutes' personnel. Additionally, funds were to be utilized to finance the training of National Planning Council and Central Bank personnel if and when required. Training was to cover the following areas:

- a. Tourism programming and planning;
- b. Tourism statistics; and
- c. Tourism promotion.

Funds allocated for the financing of technical assistance were to be utilized in the Central American public sector, primarily by the Tourism Institutes. It was to concentrate on four major topics:

- a. Tourism statistics;
- b. Production of promotional literature;
- c. Package tours promotion; and
- d. Institutional tourism organization and management.

To date, no lending has taken place for either technical assistance or training under the Loan. However, this in itself does not mean that progress toward meeting the Loan objectives has not been made.

In the public sector little, if any, training or technical assistance has been given. Unfortunately, the Tourism Institutes are not authorized to borrow money. They are allocated money in

each national budget, and must rely on their allocations to conduct business. While there is a need for training in the public sector, at the present time CABEI feels, and ROCAP concurs, that the probability of re-lending for this purpose is non-existent. However, considerable grant technical assistance has been made available from the OAS and IDB as follows (Ref: STATE 175601, dated July 25, 1975):

OAS: Total regional assistance available - \$150,700

Guatemala: \$26,500

- Outlining national tourism development and restructuring National Tourism Institute (INGUAT) \$12,500
- 1972-1974 - Tikal Project Development 7,500
- 1974-1976 - INGUAT, evaluation and promotion of tourism projects 6,500

Costa Rica: \$15,000

- 1972-1974 - Formulating guidelines for national tourism plan 5,000
- Study of legal aspects of land use in beach areas and class of hotels and other tourism facilities 2,500
- Preparation of guidelines for regional tourism development plans 7,500

El Salvador: \$11,000

- Restructuring national tourism office and training of personnel 5,500
- Improvement of tourism statistics 2,500
- Tourism promotion 1,500
- 1974-1976 - second stage, tourism promotion 1,500

Honduras: \$50,000

- Organization of tourist services 17,000
- Institutional development and implementation of national development plan 30,000
- Preliminary stage feasibility of Copán 3,000

Nicaragua: \$20,500

- 1972-1974 - Development of tourism policy 7,500
- Follow-up implementation on tourist areas identified in Tecniberia study 5,000
- 1974-1976 - Tourism statistics 6,500
- Selection of CABEI feasibility study 1,500

SITCA (Regional Tourism Institute): \$30,000

- Promotion of tourism 30,000

IDB: Total regional assistance available: \$1,043,000

El Salvador: \$303,000

- Preparation of national tourism plan 303,000

Guatemala: \$340,000

- Development of Lake Izabal feasibility study
 - Phase I 140,000
 - Implementation study 200,000

SITCA: \$400,000

- Central American tourism circuit study 400,000

To date in the private sector, the tourism industry has, for the most part, trained its own personnel either through special training programs or on-the-job. El Salvador does have a hotel training school and Costa Rica is currently exploring the possibility of establishing one. However, recent events have strengthened the concept of a regional center. On May 30, 1975, the CEPAL Committee on Economic Cooperation of the Central American Isthmus approved a Tourism Development resolution which was subsequently ratified by the Central American presidents at "Mi Flor" on July 12, 1975. The resolution calls for giving the highest priority to the development of human resources for the tourism industry (see Attachment IV). To this end, the feasibility of establishing a Central American school for hotel operations is to be studied. (Guatemala was chosen as the site for this regional tourism training center). The IDB/UNDP will support CEPAL in carrying this out.

Lastly, CABEI itself provides valuable technical assistance to the Central American tourism industry through its investments in forty-one private tourism projects totalling \$33.3 million, virtually all approved since 1970. Technical assistance is provided during both the feasibility stage and implementation, encouraging training to insure proper management and operations.

CAP projections indicate that approximately \$175,000 (out of the \$500,000 allocated) should have been disbursed for training and technical assistance activities by mid-1975 (calendar year).

While no one would question the desirability of additional training and technical assistance, it is CABEI's judgement that few, if any, requests will be forthcoming during the life of the Loan. Tourism in Central America has grown dramatically over the past several years (see statistics under C. Promotion) and, apparently, both the public and private sectors have successfully managed to hire and train personnel without the need of additional loan resources.

C. Promotion (2.5% of the Project).

Another resolution of the Acta stressed the importance of an aggressive program of promotion. This became an essential part of the program. A Joint Promotion Program (JPP) was being

designed at the time the CAP was approved and the intent was to implement it in conjunction with or parallel to the construction of public infrastructure and private investments. The JPP was to have consisted of the following:

- a. **Publicity and Advertising** - This was to be directed toward both tourists and the travel industry stressing presentations in carefully selected markets.
- b. **Public Relations** - This was to consist of (1) training seminars for travel agents, airline personnel and others in the industry, (2) providing Central American representation at travel industry conventions and in international travel organizations, and (3) sponsoring visits to Central America by influential representatives of the travel industry.
- c. **Tourist Information Offices in the U.S.** - These offices were to prepare and distribute pamphlets, posters, guidebooks, maps and other literature to potential visitors and to the travel industry. Also, they were to provide travel information about Central America to publishers, editors and writers.
- d. The final element in this promotion program was to stimulate the use of the Group Inclusive Tour (G.I.T.) air fares to Central America.

These promotion activities were to be undertaken on a regional basis and the immediate efforts were to be aimed mainly at providing backstopping to tour operators and tourist wholesalers that were already conducting tours in Central America. This effort, to the maximum extent possible, was to provide the basis for a balanced growth of tourism in Central America, giving each country a fair share of the new tourist inflow into the area.

There have not yet been any disbursements for promotion activities under the Loan. Nevertheless, promotion of Central

America as a tourist attraction has been so successful that tourism has been growing impressively for the past several years and shows no signs of subsiding. Additional hotel space, with all the accompanying facilities, are in high demand. An indication of that demand is the growth of tourism traffic. The CAP stated that a 14.9% annual growth rate in tourism was optimistic. In fact, the actual growth rate in tourism for Central America over the years 1970-73 was 18.4% (Guatemala 32%, El Salvador 19.6%, Costa Rica 18.6%, Honduras 10.7%, and Nicaragua 5%). The figures are not yet in for 1974, but estimates have the growth rate escalating significantly during 1974 and the first half of 1975.

The Robert Nathan tourism studies in both Honduras and El Salvador project an annual growth rate for Central American tourist arrivals at 9.6% over the years 1971-1990. Translated into figures, Nathan says that there were 350,000 arrivals in 1971, and projects 800,000 for 1980, 1,260,000 for 1985, and 2,000,000 for 1990. These projections do not assume any AID financing per se but clearly depend on an adequate infrastructure base being set.

The promotion activities which have contributed to the tremendous increases in tourism over the past several years can be attributed to a variety of factors: 1) Tourist information offices and tour operators in the United States, independent of any actions on the part of Central American Tourism Institutes to publicize or advertise the region, have taken advantage of GIT air fares to promote and organize tours to the area. These are most prevalent in California, New York and Florida. The tour operators advertise heavily in the newspapers and selected magazines in these areas. 2) In addition to the tour operators themselves, all the Central American airlines also promote the region via advertising in foreign airports. 3) The annual budgets of the Tourism Institutes allocate funds for promotion through the publication of pamphlets, travel guides and other literature to be sent abroad. 4) SITCA complements the individual efforts of the countries by promoting the region as a whole through similar means. At a meeting of the Directors of the Tourism Institutes of the Latin American countries (COTAL) in February 1975, it was decided that SITCA would be restructured and strengthened to better serve and

· promote regional tourism. CFPAL and CABEI will take the lead in the restructuring, the goal of which is to have better coordinated promotion, training and other tourism related activities in Central America.

Under the grant side of ROCAP's program and in support of this loan, funding has been made available to SITCA to finance a \$100,000 contract with a consultant firm (Sea Pines Resort). This firm will seek to bring together local and international investors and educate them with respect to the tourism prospects for the region. The objective will be to secure that private sector interest required under the Loan before sub-projects requiring private investment can be financed.

In addition to the activities mentioned above, the hotel industry in Central America, in conjunction with the airlines, have jointly sponsored several seminars. These have taken place in Guatemala, Costa Rica, El Salvador and Panama and were attended by airline and hotel industry personnel, Tourism Institutes' personnel and tour operators. The seminars were held to bring together some of the key actors in Central American tourism and the results were increased contact among tour operators and agents in other countries and better cooperation among those in the tourist industry in Central America. To support these efforts, the IDB is funding a Central American tourism circuit study, which will identify the best routes to follow through Central America in organizing tours, and attractions that may be included on the tours.

The CAP projected disbursements in the range of \$150,000 by mid-1975 (calendar year). This, of course, has not taken place. The reasons for this, in addition to the lack of any real need as documented in the preceding section, are quite fundamental. In the public sector, national tourism institutes are not authorized to borrow money for the promotion of tourism without the passage of special legislation. Added to this is the fact that the tourism institutes allocate money in their annual budgets to promote tourism. The private sector promotes tourism mainly because it is in its own self interest to do so.

D. Loan Compliance

1. Section 5.02: Consultation with Tourism Institutes and National Planning Organizations of Member Countries.

This Section is divided into two parts, (a) and (b), the latter having four requirements. Part (a) requires CABEI to:

"Sponsor joint periodic meetings with the Tourism Institutes and National Planning organizations of each Member Country, in its capacity as Financial Agent of the Regional Tourism Program, and assume the leadership in arranging for the financial, promotional and training requirements needed to implement the Program".

With the exception of the promotional and training requirements, CABEI has complied with this section of the Loan Agreement.

It has met on numerous occasions with Tourism Institutes and Planning Office personnel. It has attended every formal Tourism Directors' Annual Meeting since 1971. Those meetings were held in Nicaragua (June 1972); no meeting (1973); Panama (February 1974) and Guatemala (February 1975). The next meeting of the Tourism & Planning Directors will be in September 1975. CABEI is expected to, 1) take the leading role with CEPAL in strengthening SITCA through the latter's restructuring; 2) review and plan future tourism developments, including investments; and 3) help coordinate C.A. promotion materials.

Part (b) of this Section states that CABEI will:

"Use its best efforts in working with the Tourism Institutes and National Planning Organizations of the Member Countries to implement the Regional Tourism Development Program with respect to establishing:

- (i) Standard tourism legislation, including uniform incentive laws, in order to attract Central American and Foreign private investment required for the Program

- (ii) Adequate legislation in the Member Countries for setting aside land reserves required under the Program.
- (iii) National Tourism Development Plans by each Member Country.
- (iv) Measures to facilitate the flow of tourist travel between the Member Countries, such as streamlining inspection procedures, facilitating custom and immigration processing, and introducing a Central American Tourist Card."

CABEI, for specific reasons, has performed or tried to perform only (ii) and (iii) above. It has not undertaken (i) or (iv) to any extent because it found that in Central America those measures more properly fall within the roles of SITCA and the National Tourism Institutes. It has undertaken (ii) and (iii) by working with Honduras and Guatemala to assist them in developing their national tourism development plans; and by encouraging the different countries to set aside the land which has been chosen as their primary and secondary tourism poles.

2. Section 5.06: Evaluation

One year after meeting the Conditions Precedent (10/23/73) and annually thereafter until the Loan was fully disbursed, CABEI was to submit "an updated time-phased Implementation Plan of the entire Program, showing both public infrastructure and private investment inputs in each sub-project area, and an evaluation of actual progress being made to date under the Program." To date, CABEI has complied with this section.

IV. RATIONALE FOR REGIONAL APPROACH

This loan program was a direct response to a Central American initiative expressed by the Acta of September 1972. The Program was somewhat ahead of its time but momentum is now building and developments over the past several years have made it increasingly clear that Central America must develop its tourism

meaning

industry on a regional basis. While individually the countries have only limited resources and sites to attract and develop international tourism, as a group they can fare much better. The increase in the number of tourists visiting each country (cited on page 19) is one indication of the mounting interest among tourists in visiting the region. *(in regional?)*

The CEPAL resolution mentioned previously (Attachment IV), ratified by the Central American Presidents, is a strong affirmation of the regional approach to tourism development in Central America. Recognizing the importance of tourism the recommendations call for increased support to regional tourism organizations; and intensification of CABEI's activities in tourism infrastructure, regional training activities and increased efforts for regional tourism development.

These developments have caused certain unified actions on the part of the Central Americans to take advantage of the increase in tourism traffic to the region. Recently, re-allocations were made in AID Loan 596-L-010 to CABEI allowing the bank to devote more loan funds to tourism projects. The Directors of the Tourism Institutes have been meeting more frequently than in the past, and, in a February 1975 meeting of all Latin American Directors of Tourism Institutes, resolved to restructure and strengthen SITCA so that it will be able to more effectively promote, coordinate and program regional tourism development. CABEI and CEPAL will play important roles in assuring the accomplishment of this resolution.

Joint promotion efforts among Central American countries are becoming more and more common. To further this effort the IDB and OAS have made significant contributions (see pages 15-16).

It is worth special note that the largest program, \$400,000, is IDB's grant assistance to SITCA for a Central American tourism circuit study to identify the best routes to follow through the region in organizing tours to the area's attractions. In addition, hotel chains (e.g. Western International) and airlines are beginning to promote multiple country visits as are tourist agencies in the U.S. and Canada. As a result, SITCA activity has made impressive increases, especially in Guatemala, El Salvador and Costa Rica.

In support of these activities, feasibility studies are under way in all five of the Central American countries to support requests for infrastructure financing under this Loan. Also, under AID funding, SITCA has contracted a consultant to promote public and private investment in hotels and other tourist related facilities. A momentum has begun and AID can have a significant impact on it through contributions made in this Loan.

V. ROCAP RECOMMENDATIONS

In view of the foregoing analysis, ROCAP feels it is in the best interest of both AID and Central America to revise the Project, while not losing sight of the original objectives, and proceed. ROCAP's recommendations stated in Section I.B. are:

1. An additional 2-1/4 years to complete the Project through extensions of the TCD from December 31, 1976, to December 31, 1978, and of the TDD from March 31, 1977 to June 30, 1979; this will allow sufficient time for all projects (with the exception of Bahía de Culebra in Costa Rica) to receive loan financing provided that actions needed are taken on a timely basis. The attached PERT has all critical dates indicated. In order to qualify for AID financing under the Loan, feasibility studies will have to be completed no later than the dates indicated to assure sufficient time for construction to be completed prior to the revised TDD. A project will not be eligible for AID financing unless this condition is met. In addition, as articulated under the "Infrastructure and Feasibility Studies" section, projects for which private investments are required will have to demonstrate that these commitments have been secured per Section 5.01(v) of the Loan Agreement before financing will be approved. CABEI has agreed to finance, with other funds, those projects not meeting the deadlines stipulated in the PERT.

Because of inflation, especially in the construction industry, it is evident from page 2 of the attached "Infrastructure Cost Comparison" that project costs are expected to exceed the AID loan. In the event that the funds cannot be fully absorbed

because of inability to meet the deadline for each respective project ROCAP anticipates, at the present time, de-obligating the remaining funds.

There have been some changes from the CAP in items to be financed (see page 1 of the "Infrastructure Cost Comparison"). For example, the feasibility study in El Salvador indicated that Costa del Sur was a better site than Icacal, so that has been changed. Volcán Irazú in Costa Rica has been deleted because some improvements have already been made on the road by the government and there is little else that can be done. The Honduras study included ruins restoration so that has been added as a possibility. In addition, and not inconsistent with the CAP (see pp. 87 and 104) design and supervision work on all projects will be financed.

2. To supplement the amount available under the Loan for engineering, supervision and construction, ROCAP proposes to re-allocate the \$1 million (\$750,000 AID funds and \$250,000 CABEI funds) currently under Promotion and Training/Technical Assistance to design, supervision and construction. The analyses provided under the sections on Training and Technical Assistance, and Promotion, document the reasons why such a re-allocation is justifiable. Suffice it to say here that because of the shortage of construction funds, and the absence of a real need in promotion and, to a lesser extent, training and technical assistance, the objectives of the project would be best served by such a re-allocation.