

**THE GEORGE WASHINGTON UNIVERSITY**  
**Institute of Brazilian Business and Public Management Issues**  
**Instituto Cultural Minerva**  
**"Theory and Operation of a Modern National Economy"**

# **INVESTMENTS IN THE STATE OF BAHIA**

## **TOURISM: A WAY TO DEVELOPMENT**

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### **1 - INTRODUCTION**

In this paper, we will trace a broad profile on the State of Bahia, focusing on the dynamism of its economy and on its capacity of attracting new investments. We will try to show the adjustment made by the public administration, aiming to adapt the State's role to the new reality under the globalization process, giving emphasis to the State Government's priorities, strategically tuned with the new social and economic development cycle.

To start with, we will provide a brief description on the state's geographical and demographical aspects. Then, we will analyze the economic and financial situation of the State as well as the discrimination of general investment programs in progress and for the future. Finally we will focus on the strategy for the development of the tourism in Bahia.

The development of the tourism in Bahia and its investments, which will be the main subject of this paper, constitute an additional guidance consolidated by the Government of the State of Bahia. Through the Tourism Development Program – PRODETUR, it proposes a strategy for the development of the State through tourist activity, considering that this is a segment that has proved to produce fast economic growth.

This proposal is based on the fact that the country's new cycle of tourism development will have to be fundamentally organized on a decentralization strategy, in order to reduce the concentration that prevails today concerning Rio de Janeiro, for instance. The opening of new frontiers has been greatly demanded, particularly by international tourism, what widely enlarges the perspectives of Brazil's Northeastern Region. Due to the peculiarities of its weather as well as for its singular historical and cultural characteristics, Bahia stands out within the territory.

From the understanding that there is a dynamic interface among the existing tourist centers, the development strategy presents basic guidelines of intervention for the achievement of greater urban and regional development. Therefore, the main purpose of the Program is to arrange the tourist space within the State for the implementation of Integrated Tourist Centers, located in zones with manifested tourist potential.

The perspectives of the Program are not limited to tourism affairs; the development dynamics of this segment produces a better quality of life, since tourist territories begin to perform the role of job-generating sources. However, such process cannot take place without effective planning. Therefore, the Bahia Tourism Development Program – PRODETUR should produce particular actions by municipal governments and free enterprises towards its effective implementation.

## 2 - STATE'S GENERAL INFORMATION

### 2.1. GEOGRAPHICAL FEATURES

At 561 thousand km<sup>2</sup> (217 mi<sup>2</sup>), Bahia is the largest state of the Northeastern region. It has boundaries with the following states/areas: North – Piauí, Pernambuco and Sergipe; South – Espírito Santo and Minas Gerais; West – Goiás and Tocantins; and East – Atlantic Ocean. It has had 415 municipalities for the last eight years.

In addition to its considerable size, it has the longest coastline of the country: 1.103 km long (685 miles: north coast – 143; Todos os Santos Bay – 124; and southern - 418). With 68% of its territory located in the semi-arid zone, the State presents diversified climates and an average rainfall that varies from 363 mm to 2,000 mm/year, depending on the region.

Regarding the weather, Bahia is one of the most privileged states of the country with the following temperatures: 19.2 to 26.6°C (66.6 to 79.9°F) annual average; 6.1°C (42.5°F) absolute minimum at the municipality of Caetité; and 41°C (105°F) maximum at the municipality of Remanso.

### 2.2. DEMOGRAPHICAL FEATURES

Bahia is the fourth most populated state of the country, with 12.5 million inhabitants (according to the population census done by IBGE in 1996), and the most populated one in the northeastern region, with 28% of the region's population. The annual population growth rate has been falling. Between 1980 and 1991 the average growth rate was 2.1% and it fell to 1.1% between 1991 and 1996. Within this same period the annual growth rate of the Brazilian population decreased from 2.0% to 1.4%. The Economically Active Population in 1996 totaled 5.7 million people, equivalent to 44.3% of the total population of the state.

The Salvador Metropolitan Region - RMS, with 10 municipalities and 2.7 million inhabitants, concentrates approximately 22% of the state population. Its Economically Active Population totals about 1 million and 302 thousand people.

#### Major Municipalities - 1997

MUNICIPALITIES	POPULATION
Salvador	2.220.480
Feira de Santana	438.480
Vitória da Conquista	242.920
Ilhéus	241.216
Itabuna	199.994
Juazeiro	138.648
Camaçari	117.574

Barreiras	85.255
Simões Filho	78.269

### 3 – ECONOMIC ANALYSIS

Bahia is the sixth largest economy of the Country. In the mid 1950s, the Bahian economy could be considered a typical example of the primary-exporting model, which followed the subsistence production. For ten years this dynamic was led by cocoa crop that used to be the state's main product and its most important source of income.

With the acceleration of the industrialization process in the 70s', which started in the 50s, the productive structure began to change. This process, which was not limited to the regional market, was inserted in the Brazilian industry matrix through the chemical (specially petrochemical) and metallurgical segment.

Consequently, for the last twenty years, the dynamism of the Bahian economy has surpassed the national economy and the State was able to present higher growth rates than the ones presented by the national economy.

#### 3.1. GDP

In 1997 the Gross Domestic Product of Bahia reached US\$35.6 billion and the per capita income US\$2,850. In that year, its growth rate was 4%, a significant result, in face of the 3% increase of the national GDP. For 1998 the GDP growth of Bahia was firstly estimated in 3.4%, while the Brazilian GDP growth was estimated in 2%. Therefore, Bahian GDP has been growing for six consecutive years.

#### 3.2. GDP EVOLUTION RATE

Between 1992 and 1997, Bahia's GDP grew 19.1%. The following table shows the annual growth rates of Bahia and Brazil's GDP during the same period.

#### Bahia and Brazil's GDP

1992 – 1996

YEARS	BAHIA (%)	BRAZIL (%)
1992	1.4	(0.9)
1993	1.3	5.0
1994	6.7	5.7
1995	1.8	4.2
1996	3.9	2.9
1997	4.0	3.0

Source: SEI

#### 3.3. GDP SECTORIAL COMPOSITION

The evolution of the sectorial composition of the GDP, between 1960 and 1996, confirms the growing importance of the industrial sector within the current profile of the state economy, which results from the transformations that have happened for the last 40 years.

#### Sectorial Composition of Bahia's GDP

YEARS	SECTORS (%)
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	PRIMARY	SECONDARY	TERTIARY
1960	40,0	12,0	48,0
1970	22,2	12,4	65,4
1980	16,4	31,6	52,0
1990	15,2	31,9	52,9
1996	12,5	32,9	54,6

Source: SEI

### 3.4. GDP GROWTH FORECAST

The Bahian economy is expected to register an average growth of 3.1% for a three-year period between 1998 and 2000, according to studies conducted by "Superintendência de Estudos Econômicos e Sociais da Bahia – SEI" (Bahia Social and Economic Studies Agency).

The industrial sector is expected to be the main contributor to this growth, particularly from 1999 on, when the investments that are being made now in the chemical, petrochemical and automotive segment, in agroindustry and food production will be consolidated.

Consequently, Bahia's GDP over the next three years is anticipated to be the following:

#### GDP Evolution

1998 – 2000

YEAR	% OF GROWTH
1998	3.4
1999	3.0
2000	3.0

Source: SEI

The Government's goal over the next years is to achieve at the very least an average growth of 3.1%. In order to reach this goal, it's necessary to maintain the rhythm of public and private investments. Also, the agriculture/livestock must not be severely affected by any climatic phenomenon, such as "El Niño"

### 3.5. EVOLUTION OF REVENUES

#### 3.5.1. Overview

The total revenue of the State of Bahia shows such a consistent tendency for growth. Even the most conservative projections indicate that this trend is likely to continue. During the 1994 - 1997 period this revenue almost doubled in real terms, surpassing the level of US\$3,111 million for a total of US\$5,952 million in 1997.

The total revenue in 1997 consisted of 69.6% in current revenues (taxes, assets, and transfers) and 30.4% in capital revenues (credit operations, sales of assets, and others), representing an increase of 34.2%, as compared to the previous year.

The state's current revenues have also been showing a tendency for growth. During the past four years alone there has been a continued growth in tax revenues, reflecting the implementation of fiscal and economic policies by the State Government.

In the fiscal field, a vigorous modernization program stands out, with an immediate positive effect on fiscal efficiency. The consequences of which imply an increase in revenues and optimize costs.

Similarly, the readjustment of the state through its privatization program, in addition to strengthening the agricultural sector, as well as the launching of incentives toward new expansion vectors such as the automobile and shoe industries, allows us to see sustainable outcomes for the development of the State of Bahia.

With respect to capital revenues, which account for 30.4% of the state's total revenue, most noteworthy are credit operations aimed at financing new investments in accordance with the goals and objectives defined by the State Government, thus fostering the necessary conditions for the sustainable growth seen in the State of Bahia.

It should be emphasized that credit operations, while an alternative to attracting financial resources, have been utilized at levels far below legal limits, notably those established in the Resolution # 69/95 of the Federal Senate.

On the other hand, the sales of assets have had a surprising impact in 1997. It is explained through the implementation of the privatization program, which has resulted in the privatization of COELBA under extremely favorable conditions to the state.

TABLE OF REVENUES -- 1994 Through 1997  
In US\$ Millions

CLASS	1994	%	1995	%	1996	%	1997	%
<b>CURRENT REVENUES</b>	<b>3,041</b>	<b>97.73</b>	<b>3,634</b>	<b>88.91</b>	<b>3,947</b>	<b>89.02</b>	<b>4,141</b>	<b>69.57</b>
TAX	1,908	61.32	2,372	58.03	2,627	59.25	2,621	44.04
ASSETS	158	5.08	39	0.96	22	0.51	157	2.64
CURRENT TRANSFERS	908	29.18	1,152	28.18	1,232	27.79	1,288	21.64
OTHER CURRENT REVENUES	67	2.14	71	1.74	65	1.47	75	1.26
<b>CAPITAL REVENUES</b>	<b>71</b>	<b>2.27</b>	<b>453</b>	<b>11.09</b>	<b>487</b>	<b>10.98</b>	<b>1,811</b>	<b>30.43</b>
CREDIT OPERATIONS	63	2.02	440	10.77	466	10.51	240	4.03
CONTRACTS	63	2.02	44	1.08	252	5.68	240	4.03
BONDS	0	0.00	396	9.69	214	4.83	0	0.00
SALES OF ASSETS	0	0.00	0	0.00	5	0.11	1,556	26.14
OTHER CAPITAL REVENUES	8	0.25	13	0.32	16	0.36	15	0.25
<b>TOTAL REVENUE</b>	<b>3,111</b>	<b>100.00</b>	<b>4,087</b>	<b>100.00</b>	<b>4,434</b>	<b>100.00</b>	<b>5,952</b>	<b>100.00</b>

Source: Bahia's General Balance Sheet

Figures updated based on the IGP-DI, converted into US Dollars at the December 31, 1997 exchange rate (R\$ 1,1164)

For 1997, the ICMS includes the Kandir Law compensation

### 3.5.2. Evolution Figures

During the 1994 - 1997 period, the State of Bahia's total revenue has presented a real average growth of 24.7%.

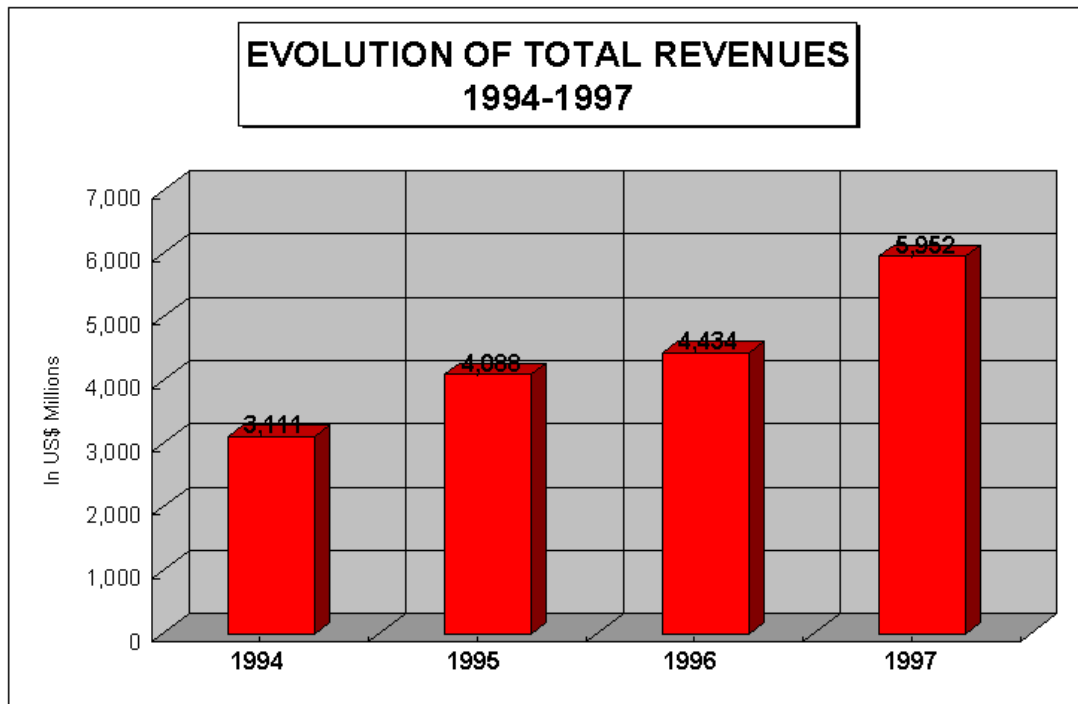
## EVOLUTION OF TOTAL REVENUES

1994 through 1997

YEAR	Amount in US\$ Millions	Variation compared to Previous Year %	Accrued Variation %
<b>1994</b>	<b>3,111</b>	<b>-</b>	<b>-</b>
<b>1995</b>	<b>4,008</b>	<b>31.40</b>	<b>31.40</b>
<b>1996</b>	<b>4,434</b>	<b>8.46</b>	<b>42.52</b>
<b>1997</b>	<b>5,952</b>	<b>34.24</b>	<b>91.31</b>

Source: Bahia's General Balance Sheet

Figures updated based on the IGP-DI, converted into US Dollars at the December 31, 1997 exchange rate (R\$ 1,1164)



Source: Bahia's General Balance Sheet

Figures updated based on the IGP-DI, converted into US Dollars at the December 31, 1997 exchange rate (R\$ 1,1164)

### 3.5.3. Most Significant Items in the State's Revenue

In the scope of current revenues, which comprised for 69.6% of the total revenue in 1997, tax revenues are the single most important item, responsible for 63.3% of the current revenues and 44% of the total revenue.

The revenue derived from the Federal Government transfers is very important in the composition of Bahia's revenue since it accounted for 31.1% of current revenues and 21.6% of the total revenue in 1997. However, it is not a determining factor in the upward curve of the State of Bahia Treasury's Own Resources, due to the outstanding performance of the already-mentioned tax revenues.

Regarding capital revenues, their share in the total revenue in 1997 was 30.4%, mainly due to the income from the sales of assets included in the State Privatization Program.

**BREAKDOWN OF REVENUES**  
**MOST SIGNIFICANT ITEMS**  
 1994 Through 1997

In US\$ Millions

DISCRIMINATION	1994-1996 AVERAGE		1997	
	AMOUNT	%	AMOUNT	%
<b>1. CURRENT REVENUES</b>	<b>3,540</b>	<b>91.31</b>	<b>4,141</b>	<b>69.57</b>
1.1. TAXES	2,292	59.12	2,620	44.02
ICMS	2,212	57.05	2,445	41.08
OTHERS	80	2.06	175	2.94
1.2. FPE TRANSFERS	736	18.98	849	14.26
1.3. OTHER TRANSFERS	361	9.31	439	7.38
1.4. OTHER CURRENT REVENUES	81	2.09	76	1.28
1.5. MONEY MARKET OPERATIONS	70	1.81	157	2.64
<b>2. CAPITAL REVENUES</b>	<b>337</b>	<b>8.69</b>	<b>1,811</b>	<b>30.43</b>
2.1. CREDIT OPERATIONS	323	8.33	240	4.03
2.2. SALES OF ASSETS	2	0.05	1,556	26.14
2.3. OTHER CAPITAL REVENUES	12	0.31	15	0.25
<b>TOTAL</b>	<b>3,877</b>	<b>100.00</b>	<b>5,952</b>	<b>100.00</b>

Source: Bahia's General Balance Sheet

Note: For 1997, the ICMS includes the Kandir Law compensation

### The ICMS Contribution (6th Largest in the Country)

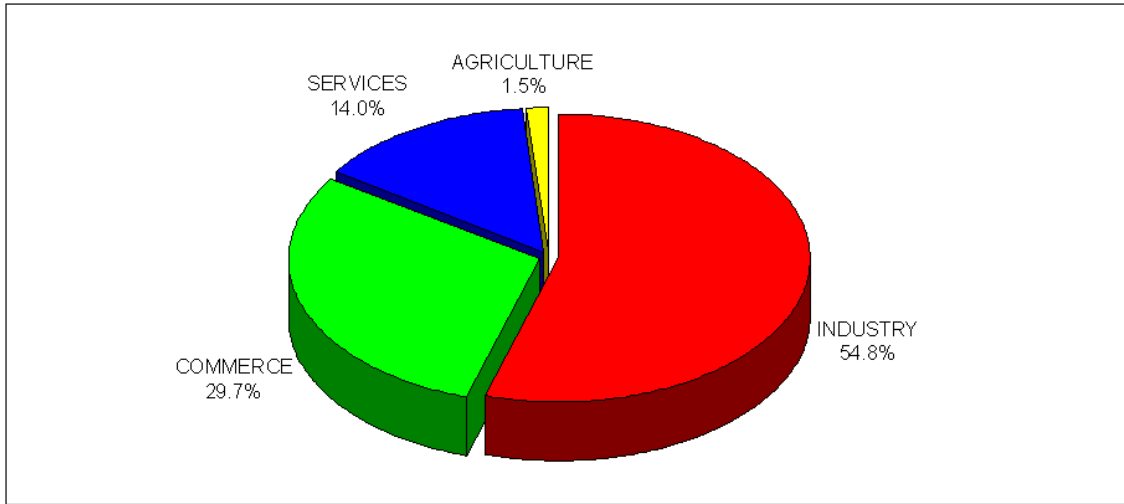
The ICMS is the single most important revenue in the state, accounting for 93.3% of tax revenues and 41.1% of the total revenue. However, it does not mean inflexibility for the generation of additional revenues. According to the pertinent Legislation, the State of Bahia applies the ICMS minimum tax rate of 17%, like most of Brazilian states, although some apply the tax rate of 18% and others 37%. For a few services and superfluous products, again like other states, Bahia established a restricted tax rate of 25%. Regarding "basic supplies" (food products), Bahia, unlike other Brazilian states, applies a tax rate of 7%. This means that, regarding the ICMS, since the State of Bahia applies minimum tax rates, there is enough room for increases that are not implemented, because the Government understands its current fiscal policy as adequate.

In addition, the ICMS contributing base in the State of Bahia is quite diversified. It is led by the Industrial Sector – a typical configuration of mature economies that are very little dependent on seasonable circumstances to which agriculture-based economies are subject, as demonstrated in the following table:

### ICMS Composition By Sector - 1997

SECTOR	%CONTRIBUTION
Industry	54.8
Trade	29.7
Services	14.0
Agriculture	1.5
<b>Total</b>	<b>100.0</b>

**ICMS BREAKDOWN BY ECONOMIC SECTOR  
JAN-DEC '97**



Source : ASPLAN / SEFAZ

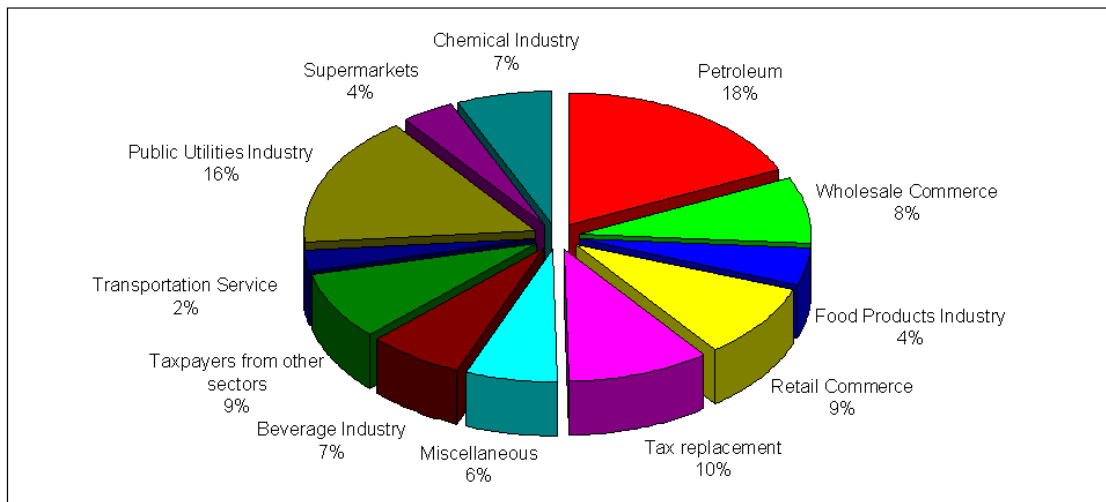
It is important to notice that the ICMS composition by segment is also very diversified, reducing the risk of occasional fluctuations.

**ICMS Composition By Segment - 1997**

SEGMENT	% CONTRIBUTION
Oil Industry	18
Public Services	16
Tax Replacement	10
Non-segmented Taxpayers	9
Retail Trade	9
Wholesale Trade	8
Chemical Industry	7
Beverage Industry	7
Mixed Segment	6
Supermarket	4
Food Product Industry	4
Transportation Service	2
<b>Total</b>	<b>100</b>



## ICMS BY-SECTOR BREAKDOWN JAN-DEC '97



Source : SEFAZ / PGM

Therefore, in absolute terms, the State of Bahia's ICMS revenue is among the largest tax collections in the country (São Paulo, Minas Gerais, Rio de Janeiro, Rio Grande do Sul, and Paraná).

Worth noting is the fact that among the top-six ICMS collecting states Bahia presented the largest percent increase in ICMS collection over the 1993 - 1996 period, easily observed through the presented annual variation and the cumulative growth of approximately 69%. Over the cumulative 1994 - 1997 period, the growth rate was 31.7%, also higher than that of the other states considered.

### ICMS COLLECTION IN BRAZIL'S PRINCIPAL STATES 1994 THROUGH 1997

STATE	in US\$ Millions				% VARIATION			
	1994	1995	1996	1997	96/95	97/96	97/95	97/94
SÃO PAULO	15,530	20,051	21,296	21,632	6.21	1.58	7.88	39.29
MINAS GERAIS	3,956	4,978	5,189	4,826	4.24	(7.00)	(3.05)	21.99
RIO DE JANEIRO	4,182	5,104	5,391	5,094	5.62	(5.51)	(0.20)	21.81
RIO GRANDE DO SUL	3,419	3,872	3,986	3,710	2.94	(6.92)	(4.18)	8.51
PARANA	2,283	2,734	2,797	2,626	2.30	(6.11)	(3.95)	15.02
BAHIA	1,858	2,291	2,488	2,446	8.60	(1.69)	6.77	31.65
SANTA CATARINA	1,519	1,851	1,904	1,903	2.86	(0.05)	2.81	25.28
<b>TOTAL</b>	<b>32,747</b>	<b>40,881</b>	<b>43,051</b>	<b>42,237</b>	<b>5.31</b>	<b>(1.89)</b>	<b>3.32</b>	<b>28.98</b>

Source: BAHIA -- General Balance Sheet

Other States -- COTEPE (Permanent Technical Committee)

Note: Figures updated based on the IGP-DI, converted into US Dollars at the December 31, 1997 exchange rate (R\$ 1,1164).

- **Evolution of the ICMS**

Over the past six years (1992/1997) the ICMS collection in the State of Bahia has presented real growth, especially from 1994 – beginning of "Plano Real", when ICMS revenues experienced significant increases. In 1997, however, the collection of ICMS presented a decrease of 1.7% by comparison with 1996. Such an event resulted from the exhaustion of the consumption boom caused by currency stabilization plan, and by the effects of the Kandir Law.

In order to motivate exports – an initiative of the Federal Executive Branch, the National Congress approved a bill to be adopted from 1997, named the Kandir Law. This law exempts all semi-processed products intended for exports from ICMS. The effects of the Kandir Law, however, were different from state to state depending on each one's export inventory. In the case of Bahia the effects were negative, with collection losses. To lessen the

damage, the Federal Government set up a kind of compensatory device which did not fully make up for the losses.

Despite this, there was actual growth in the ICMS for the 1992 - 1997 period. Such circumstance stems from the success of the previous and current administrations in searching for and actually attracting new investments to the state, as well as in modernizing and systematizing collection and fiscal controls.

The real growth in Bahia's ICMS is noteworthy when compared to macroeconomic indicators such as the annual GDP growth for both Brazil and Bahia. In the 1994 - 1997 period, while both Brazil's GDP and Bahia's GDP grew at annual averages of 4% and 4.1%, respectively, the ICMS had an average annual growth of 14.1%.

Regarding the by-sector composition of the ICMS, we can observe that the contribution of the industrial sector represents more than half (54.8%) of the ICMS collected in the state, followed by the sectors of trade (29.7%), services (14%) and agriculture (1.5%).

### 3.6. EVOLUTION OF EXPENDITURES

#### 3.6.1. Overview

With US\$3,861 million in 1997, current expenses (personnel, social and debt burdens, and others) represent approximately 77.6% of total expenditures in the State of Bahia.

For the 1994 - 1997 period, current expenses maintained an average annual growth rate of 17%.

On the other hand, capital expenses (financial inversions, investments, amortization of the debt and others), represent 22.4% (approximately US\$1,117 million) of an actual total expenditure for 1997 that reached US\$4,977 million.

**TABLE OF EXPENSES - 1994 THROUGH 1997**

In US\$ millions

CLASS	1994	%	1995	%	1996	%	1997	%
<b>CURRENT EXPENSES</b>	<b>2,437</b>	<b>76.29</b>	<b>3,185</b>	<b>73.05</b>	<b>3,584</b>	<b>78.05</b>	<b>3,860</b>	<b>77.56</b>
PERSONNEL AND SOCIAL BURDENS	1,311	41.04	1,693	38.83	1,810	39.42	1,926	38.70
DEBT BURDENS (SERVICE)	177	5.54	228	5.23	232	5.05	259	5.20
TRANSFERS TO MUNICIPALITIES	497	15.56	620	14.22	699	15.22	656	13.18
COSTING	452	14.15	644	14.77	843	18.36	1,019	20.47
<b>CAPITAL EXPENSES</b>	<b>757</b>	<b>23.71</b>	<b>1,175</b>	<b>26.95</b>	<b>1,008</b>	<b>21.95</b>	<b>1,117</b>	<b>22.44</b>
INVESTMENTS	589	18.43	656	15.05	634	13.80	872	17.52
AMORTIZATION (PRINCIPAL)	168	5.28	519	11.90	374	8.14	245	4.92
<b>TOTAL EXPENSES</b>	<b>3,194</b>	<b>100.00</b>	<b>4,360</b>	<b>100.00</b>	<b>4,592</b>	<b>100.00</b>	<b>4,977</b>	<b>100.00</b>

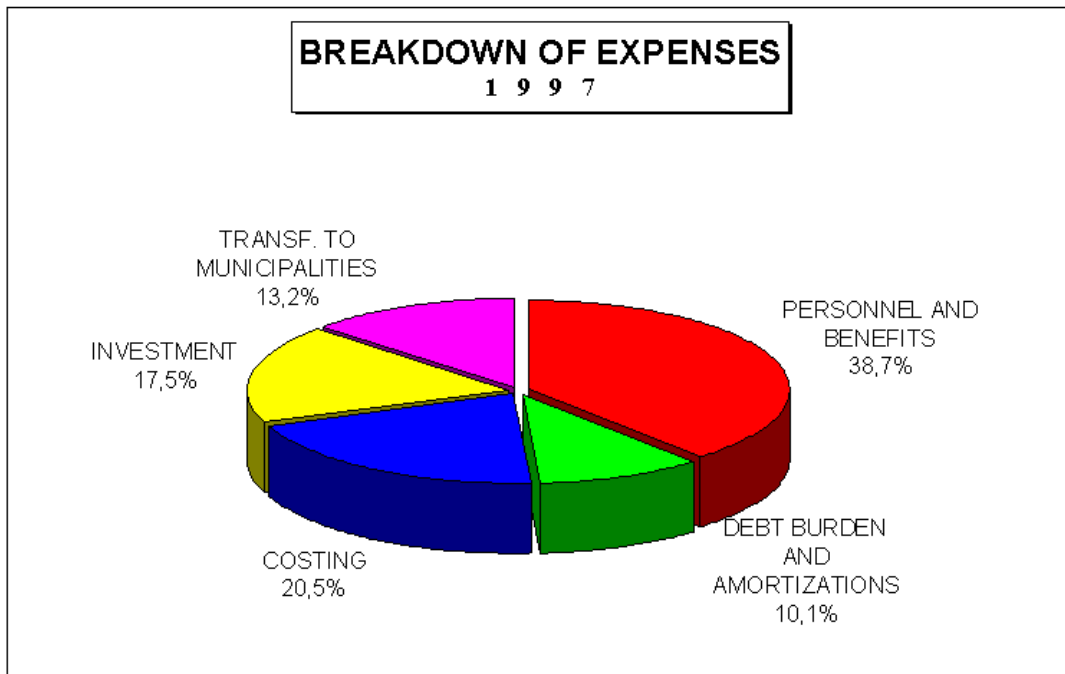
Source: Bahia's General Balance Sheet

Figures update based on IGP-DI, converted into US\$ Dollars at the December 31, 1997 exchange rate (R\$ 1,1164)

## BREAKDOWN OF EXPENSES 1997

DISCRIMINATION	In US\$ Million	%
1. PERSONNEL	1,926	38.70
2. COSTING	1,019	20.47
3. INVESTMENTS	872	17.52
4. TRANSFERS TO MUNICIPALITIES	656	13.18
5. DEBT BURDENS AND AMORTIZATIONS	504	10.13
<b>TOTAL</b>	<b>4,977</b>	<b>100.00</b>

Source: Bahia's General Balance Sheet



### 3.6.2. Evolution of Personnel Expenses

In the State of Bahia, personnel expenses have grown at an average rate of 14.1% in the 1994 - 1997 period.

In 1997, personnel expenses reached US\$1,926 million, representing an increase of 6.4% in comparison with the previous year, and approximately 38% of total expenditures.

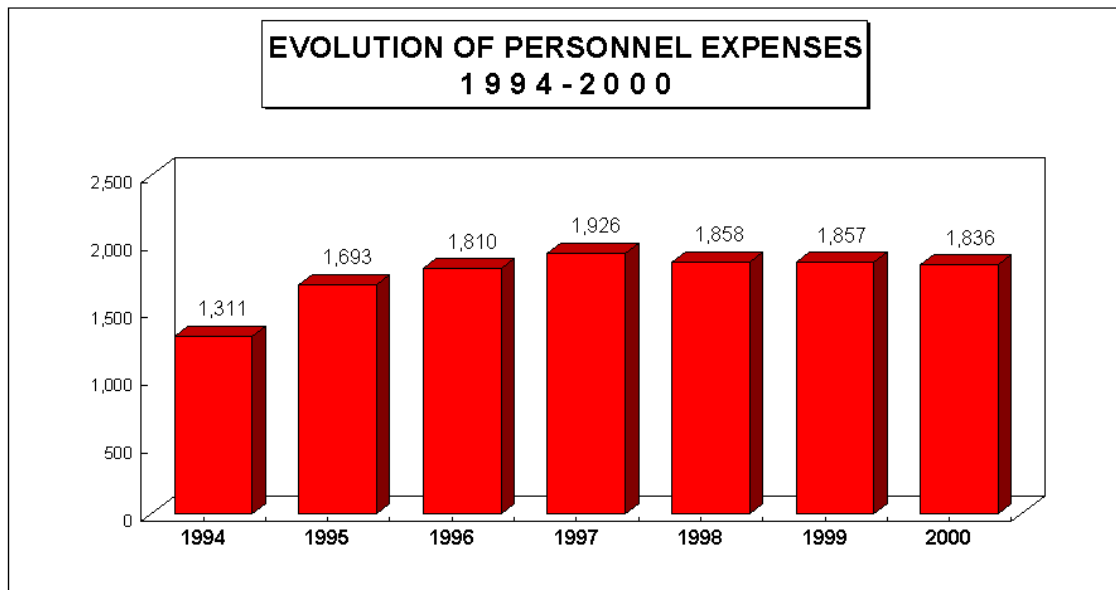
Although under control, Personnel Expenses have, as a matter of fact, shown real growth which can be explained by the legal increases in the minimum salary and cumulative remuneration (overtime, extras, vacation pay and extra classes). In 1995 the increase in the minimum salary was 42.9%. In 1996 it was 12%, and 7.1% in 1997.

## EVOLUTION OF PERSONNEL EXPENSES 1994-2000

YEAR	Amount In US\$ Millions	%
<b>1994</b>	<b>1,311</b>	---
<b>1995</b>	<b>1,693</b>	<b>29.14</b>
<b>1996</b>	<b>1,810</b>	<b>6.91</b>
<b>1997</b>	<b>1,926</b>	<b>6.41</b>
<b>1998</b>	<b>1,858</b>	<b>(3.53)</b>
<b>1999</b>	<b>1,857</b>	<b>(0.05)</b>
<b>2000</b>	<b>1,836</b>	<b>(1.13)</b>

Source: Bahia's General Balance Sheet

Figures updated based on the IGP-DI, converted into US Dollars at the December 31, 1997 exchange rate (R\$ 1,1164).



- 
- **Complying with Constitutional and Camata Law Limits**
  - **(Personnel Expenses Vs. Net Current Revenue)**

The portion of the state's expenditures assigned to personnel, in relation to the Net Current Revenue, has been kept below the limits established by the Federal Constitution and additional legal rules (Camata Law).

In addition to attempting to comply with the established juridical framework, such efforts represent an absolute control of public finances applied by the State of Bahia's current and previous administrations.

In the 1994 - 1997 period, the share of the state's expenditures assigned to the payroll, in relation to the Net Current Revenue, has always been kept below 60%, or at 57%, in average. In 1997, the participation of the payroll was even smaller: about 55.3%.

One of Brazil's foremost newspapers, *A Folha de São Paulo*, on November 26, 1997, highlights that the Camata Law is complied with by only seven Brazilian states. Among the seven largest ICMS-collecting states, only the State of Bahia is within the legal limits.

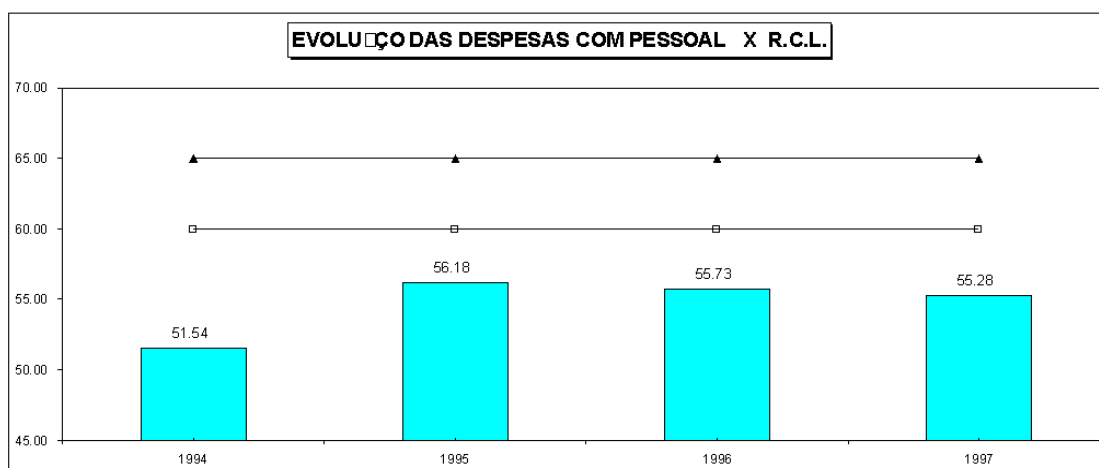
### Percent Participation of Personnel Expenses

#### In the Net Current Revenue

STATE	1996 (%)	1997 (%)
SÃO PAULO	65.8	62.0
MINAS GERAIS	80.5	80.7
RIO DE JANEIRO	87.6	81.1
RIO GRANDE DO SUL	87.5	85.0
PARANÁ	76.8	73.7
<b>BAHIA</b>	<b>56.0</b>	<b>55.3 *</b>
SANTA CATARINA	72.0	67.6

From A Folha de São Paulo newspaper, November 26, 1997, page 01-06

\* A projection of 52% was indicated for Bahia on the paper.



### 3.6.3. Evolution of Investments and Outlays

- 
- **Outlays**

Outlays expenses in the State of Bahia have been kept between 14 and 20% of total expenditures. A certain acceleration has been observed lately, due to new services being rendered to the population, and also to the outsourcing of some of them. Such increments, however, have been compensated with the reduction of personnel's cost and the improvement in the quality of the services offered. As a matter of fact, increments could have been even greater if a series of successful actions had not been implemented, among them, the following:

- 
- Downsizing of the administrative structure by closing state companies and agencies, as well as buyouts and mergers;
- 
- Reduction of personnel expenses by developing the Program for Voluntary Dismissal and Motivated Retirement;
- 
- Implementation of the Policy for Privatization, Concession and Outsourcing of public services, reducing the size of the State;
- 
- Establishment of a social security fund, the FUNPREV, to be responsible for the payments of pensions and retirements, as well as for the provision of health assistance service, the latter to be managed by private companies, making financial resources available for the State to carry out new investments;
- 
- Upkeeping personnel expenses at a level that is compatible with its payment capacity – as a function of the state's Net Current Revenue, always within the Constitutional limit and, moreover, below the limit of the Camata Law;

### EVOLUTION OF OUTLAYS AND INVESTMENTS

In US\$ million

YEAR	OUTLAYS	%	INVESTMENT	%
<b>1994</b>	452	---	589	---
<b>1995</b>	644	42.48	656	11.38
<b>1996</b>	843	30.90	634	(3.35)
<b>1997</b>	1,019	20.88	872	37.54

Source: Bahia's General Balance Sheet

Figures update based on IGP-DI, converted into US\$ Dollars at the December 31, 1997 exchange rate (R\$ 1,1164)

**TOTAL EXPENSES BY FUNCTION**

In US\$ millions

Description	1994	%	1995	%	1996	%	1997	%
LEGISLATIVE	48	1.49	73	1.68	77	1.68	86	1.73
JUDICIARY	139	4.36	213	4.89	250	5.43	266	5.34
ADMINISTRATION AND PLANNING	547	17.13	1,103	25.31	1,002	21.81	889	17.86
AGRICULTURE	94	2.94	126	2.90	120	2.60	125	2.51
COMMUNICATIONS	4	0.12	2	0.05	2	0.05	5	0.10
PUBLIC SECURITY	145	4.54	263	6.03	342	7.44	421	8.46
REGIONAL DEVELOPMENT	582	18.22	678	15.56	761	16.57	765	15.37
EDUCATION AND CULTURE	567	17.74	740	16.98	782	17.03	821	16.50
POWER AND MINERAL RESOURCES	33	1.05	25	0.59	33	0.72	46	0.92
HOUSING AND URBANISM	40	1.25	30	0.69	81	1.76	180	3.62
INDUSTRY, TRADE AND SERVICES	44	1.37	39	0.90	70	1.53	98	1.97
HEALTH AND SANITATION	435	13.61	538	12.35	502	10.92	567	11.39
LABOR	11	0.34	17	0.40	26	0.57	38	0.76
SOCIAL WELFARE	315	9.87	347	7.96	378	8.23	387	7.78
TRANSPORTATION	190	5.95	163	3.74	165	3.60	284	5.71
<b>TOTAL</b>	<b>3,194</b>	<b>100.00</b>	<b>4,357</b>	<b>100.00</b>	<b>4,592</b>	<b>100.00</b>	<b>4,977</b>	<b>100.00</b>

Source: Bahia's General Balance Sheet

Figures update based on IGP-DI, converted into US\$ Dollars at the December 31, 1997 exchange rate (R\$ 1,1164)

- 
- **Investments**

The State of Bahia has been assigning a significant part of its revenues to public investments.

The investment programs of the state have been backed basically by its own resources and, in a complementary fashion, with resources originating from credit operations signed with international organizations (World Bank, IDB, KFW, OECF, etc.), and with national creditors (CEF, BNDES, etc.).

There are governmental investments in progress in the fields of environmental and urban sanitation (Bahia Azul), popular housing (Viver Melhor), transportation (Corredores Rodoviários), tourism (Prodetur), urban development (Produr), and regional development (Sertão Forte).

Social areas have also been given priority by current and previous administrations. The construction of new teaching facilities, the set up of a training and career development center for teachers, as well as new hospitals and health centers, and the acquisition of equipment and the modernization of the civil and military polices are examples of this Government's action.

The significant increase in the amount of investments in the year 1997 is explained by the success of the state privatization program, confirming the purpose of the government in intensifying public development projects throughout the state.

## EVOLUTION OF INVESTMENTS

In US\$ million

Year	Treasury	Other Sources	TOTAL	VARIATION (%)
1994	424	165	589	---
1995	388	268	656	11.38
1996	334	300	634	(3.35)
1997	480	392	872	37.54

Source: Bahia's General Balance Sheet

Figures update based on IGP-DI, converted into US\$ Dollars at the December 31, 1997 exchange rate (R\$ 1,1164)

### 3.7. BUDGET RESULTS

#### Current Result

Current Result is defined as the current revenue minus current expenses. Over the 1994 - 1997 period, the State of Bahia has been capable of generating surpluses for financing new investments, as well as for the amortization of debts contracted essentially for the expansion of the state's capital stock back-feeding the growth process. Therefore, we see positive results for all years: US\$604 million in 1994, US\$450 million in 1995, US\$363 million in 1996, and US\$280 million in 1997.

#### Net Current Result

This is defined as the Current Result minus amortization. With this equation, the State is able to identify its payment capacity, as well as outline the State's Net Savings earmarked for capital formation. A significantly positive result of US\$435 million was observed in the first year of the series, while slightly negative results of US\$68 million and US\$11 million were observed in 1995 and 1996, respectively, although they may be easily made up for by the positive results of the previous year and the following year. In 1997, there was a positive result of US\$35 million, generating surpluses after all the amortization payments for investment financing.

#### Primary Result

In the 1994 - 1997 period, as we deduct the financial income and credit operations from total revenues, and we subtract total expenditures and debt burdens from the result, we display extremely comfortable results, considering the surplus of US\$1,129 million for the years 1994 and 1997, as opposed to only US\$42 million for the years 1995 -1996.

#### Operating Result

This, defined as the primary result plus financial income minus burdens and amortization, demonstrates the reaction of the state to face up all of its duties using its own financial resources. Such a fact is owed to the increase in its own resources, an outcome of fiscal efficiency gains and attenuation in its debt profile, as well as the decline in its debt stock.



**BUDGET PERFORMANCE  
(EXCLUDING DEBT TURNOVER)  
In US\$ Millions**

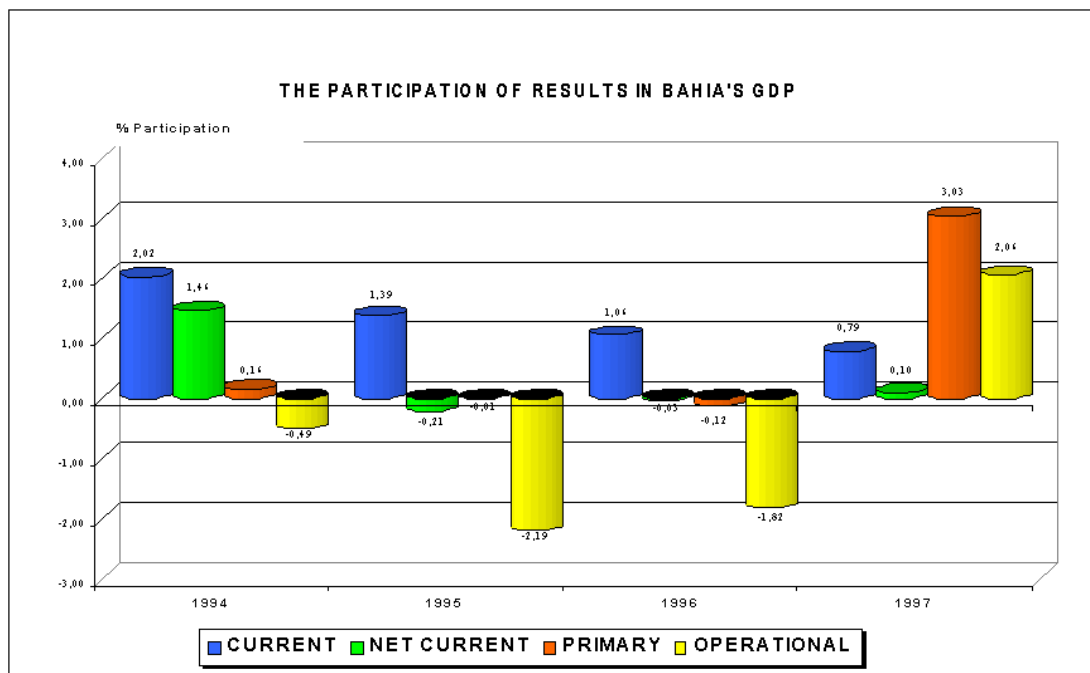
YEAR	CURRENT RESULT (1)	NET CURRENT RESULT (2)	PRIMARY RESULT (3)	OPERATIONAL RESULT (4)	OWN RESOURCES FOR INVESTMENTS
1994	604	435	48	(146)	424
1995	450	329	(2)	(314)	388
1996	363	205	(40)	(408)	334
1997	280	35	1,081	734	479
1998	449	246	(806)	(1,219)	1,018
1999	557	311	(71)	(564)	460
2000	757	451	142	(427)	460

(1) Current Revenue - Current Expenses

(2) Current Revenue - Current Expenses - Amortizations

(3) Total Revenue - Money Market Operations - Credit Operations - Total Expenses + Debt Burdens + Amortization

(4) Primary Result + Money Market Operations - Debt Burdens - Amortization



### 3.8. PROJECTIONS

#### 3.8.1. Revenues

The projection of total revenue for the 1998 - 2000 period shows an upward perspective, even with conservative indicators drawn out from the historical evolution of the figures for the 1994 - 1997 series.

Current revenues are also keeping this upward tendency, and the same is observed with tax revenues, given the demonstrated historical performance. However, this is now somewhat moderate and conservative, for once we assume the exhaustion of the effects from the increase in fiscal efficiency, further growth shall become more related to GDP growth both at state and national levels, variables that were considered in our methodology for the projection of these revenues.

Furthermore, a downward trend is projected for assets revenues as a result of the reduction in financial participation because of the economic stability. On the other hand, current transfers keep their growth trend because of the increase in Brazil's GDP, also projected in a conservative and consistent way.

Regarding capital revenues, given existing and prospective credit operation contracts, we observe a continuous decrease in the annual amounts concerning releases from 1998, which justifies the comfortable situation of the state with respect to its debt engaging capacity, as it allows the identification of alternative sources for the attraction of financial resources.

Still with regards to these revenues, we understand that revenues from sales of assets were projected under the privatization program – the privatization of BAHIAGÁS, for instance, is scheduled for 1998 – and, as the privatization process follows the schedule, revenues from sales of assets ceases to be significant.

**PROJECTION OF REVENUES**  
1998 THROUGH 2000

DISCRIMINATION	1997	1998	1999	2000
<b>1 - CURRENT REVENUES</b>	<b>4,141</b>	<b>4,212</b>	<b>4,320</b>	<b>4,497</b>
1.1 - Tax Revenue	2,621	2,668	2,753	2,896
1.1.1 - Taxes	2,510	2,556	2,637	2,773
- ICMS	2,446	2,490	2,567	2,696
- IPVA	59	61	65	71
- Others	5	5	5	6
1.1.2 - Duties	111	112	116	123
1.2 - Assets Revenue	163	130	118	107
1.2.1 - Money Market	157	124	112	100
1.2.2 - Others	6	6	6	7
1.3 - Current Transfers	1,288	1,344	1,376	1,417
1.3.1 - FPE	849	906	924	942
1.3.2 - IPI	94	91	92	94
1.3.4 - Others	345	347	360	381
1.4 - Other Current Revenues	69	70	73	77
<b>2 - CAPITAL REVENUES</b>	<b>1,811</b>	<b>430</b>	<b>374</b>	<b>376</b>
2.1 - Credit Operations	240	401	352	353
2.2 - Sales of Assets (*)	1,556	13	6	6
2.3 - Other Capital Revenues	15	15	16	17
<b>3 - TOTAL REVENUES</b>	<b>5,952</b>	<b>4,642</b>	<b>4,694</b>	<b>4,873</b>

Source: Bahia's General Balance Sheet

### 3.8.2. Expenditures

Total expenses projected for the 1998 - 2000 period shows a declining tendency.

In current expenses, the determination of the state with regards to the rationalization of current expenditures is evident. The compliance with the legal parameters mentioned above makes possible, for example, the establishment of a new configuration for the expenditures on personnel and social burdens starting in 1998 with the creation of the Social Security Fund.

Debt burdens, as we can see, are declining due to the deceleration in the signing of new contracts, according to what was mentioned in item "Credit Operation Revenues," while the same trend is observed for the transfers to funds, autarchies, and foundations. The stability of the transfers to municipalities is a consequence of their link to State Revenues, according to a constitutional provision, and their projection was based on these parameters.

Finally, it is interesting to observe the profile projected for capital expenses, as amortization has a steady behavior, with more significant influence in the year 2000. However, it is also important to emphasize the maintenance of the State's investment capacity along the period under consideration, where a decrease verified

in the projected series suits the Government's "Pluri-annual Plan of Investments," in addition to the legal elements and financial markers of these investments.

**PROJECTION OF EXPENSES**  
1998 THROUGH 2000

DISCRIMINATION	1997	1998	1999	2000
<b>1 - CURRENT EXPENSES</b>	<b>3,861</b>	<b>3,763</b>	<b>3,763</b>	<b>3,740</b>
1.1 - Personnel and Social Burdens	1,926	1,858	1,857	1,836
1.1.1 - Active Employees	1,579	1,538	1,568	1,599
1.1.2 - Retired Employees	347	320	289	237
1.2 - Debt Burdens	259	335	358	364
1.3 - Other Current Expenses	1,676	1,571	1,548	1,540
1.3.1 - Transfers to Municipalities	657	676	698	733
1.3.2 - Transfers to Autarchies and Foundations	202	177	168	160
1.3.3 - Transfers to Funds	258	226	214	204
1.3.4 - Direct Applications	492	433	412	391
1.3.5 - Other Current Expenses	67	59	56	53
<b>2 - CAPITAL EXPENSES</b>	<b>1,117</b>	<b>1,696</b>	<b>1,142</b>	<b>1,207</b>
2.1 - Amortizations	245	203	246	306
2.2 - Total Investment	872	1,493	896	901
2.2.1 - Financial Inversions	69	175	105	106
2.2.2 - Investments	774	1,292	775	779
2.2.3 - Other Capital Expenses	29	27	16	16
<b>3 - TOTAL EXPENSES</b>	<b>4,978</b>	<b>5,459</b>	<b>4,905</b>	<b>4,947</b>

Source: Bahia's General Balance Sheet

### 3.9. PUBLIC DEBT

#### 3.9.1. Introduction

The present item intends to explain the Public Debt of the State of Bahia, its origin and evolution over the 1990s. The goal is to give an overview of the sources and the destinations of the financial resources that have been attracted from national and international organizations.

Financial resources from the state's tax collection alone are not enough to meet the demands of the several sectors where governmental action is needed. For that matter, it is necessary to contract credit operations where resources are earmarked for specific investments, provided that there is compliance with the basic principles for the management of public assets, and that a cost/benefit analysis is carried out.

#### 3.9.2. Composition and Historical Evolution of the Debt Balance: 1994 - 1997

The public debt balance of the state reached US\$4,700 million in December of 1997. 93.8% consists of internal credit operations, and 6.2% of foreign credit operations.

The contracted internal debt is US\$4,411 million held in federal banks, private banks, and the Federal Treasury, the latter participating with 92.5%. This reflects the exemplary performance of the state, given the profile of longer-term, lower-cost debt engaging. The bonds debt, with a balance of US\$805 million in December 1<sup>st</sup>, 1997, was fully refinanced, according to agreement signed on that date under the terms of Law # 9.496/97.

External operations make up only 5.4%, corresponding to US\$289 million, which were signed with multilateral and bilateral organizations.

The increase over the 1994 - 1997 period was, in absolute terms, US\$843 million. The primary cause was bonds debt, whose increase reached US\$357 million, due to the high interest rates policy imposed by the federal government for the security market.

Therefore, an accrued growth of 21.9% is observed for the period, where the bonds debt alone grew 79.5%. The average growth was 6.8%.

## EVOLUTION OF THE DEBT BALANCE

(In US\$ millions)

Creditor	1994	1995	1996	1997
<b>I - External Debt</b>	<b>412</b>	<b>186</b>	<b>219</b>	<b>289</b>
IDB	157	179	194	247
World Bank (IBRD)	-	3	22	37
Others	255	4	3	5
<b>II - Internal Debt</b>	<b>3,444</b>	<b>3,986</b>	<b>4,323</b>	<b>4,411</b>
National Treasury	2,925	3,292	3,348	4,080
Bonds (LFTBAs)	448	595	710	-
Federal Banks	10	46	217	300
Others	61	53	48	31
<b>III - Total Debt</b>	<b>3,856</b>	<b>4,172</b>	<b>4,542</b>	<b>4,700</b>
<b>IV - Total Debt / Ba GDP</b>	<b>12.91</b>	<b>12.85</b>	<b>13.27</b>	<b>13.21</b>

Source: Bahia's General Balance Sheet

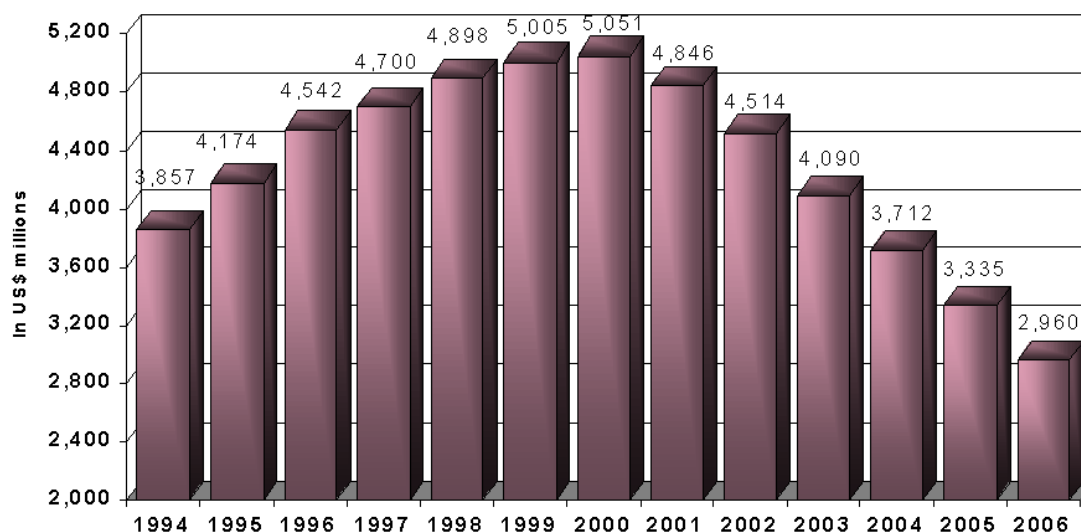
### 3.9.3. Evolution of the Debt Balance: 1994 - 2006

Starting in 1994, the state experienced a decrease in its external debt, which was made possible by means of a renegotiation with the Federal Government of debts along international private banks – the Brady Plan. The renegotiated amount then entered the balance of internal debt, which partially explains the growth of it.

The tendency for the total debt balance, however, is declining due to three fundamental reasons:

- 1.
2. The last operations signed have an average grace period of three years. Therefore, the principal (amortization) will only start being paid for after the year 2000, and from then on we will feel the reduction impact on the debt balance;
- 3.
4. Some operations are nearing the redemption term;
- 5.
6. The Government of the State established the goal of getting to the year 2006 with a one-to-one relationship between Actual Net Revenue (RLR) and Debt Balance, that is to say, US\$1.00 of RLR for each US\$1.00 of Debt Balance.

## EVOLUTION OF TOTAL DEBT BALANCE



Finally, it must be concluded that the State of Bahia finds itself in a privileged position of financial stability, with its own resources available for investment, positive balances in public accounts and room for debt in-taking – a result of the implementation of administrative reforms, positive economic tendencies, and political will -, giving rise to an array of reasons that make it stand out from other states. Only one or two other states, observed their particular circumstances, may be seen as in more similar conditions.

One aspect that should not be forgotten is that, in order to turn Bahia into a more efficient state, the Government started to face an important restructuring process. The reduction of its size through the privatization of its companies or outsourcing of services is absolutely necessary to allow the State to focus on the execution of its basic functions. Some measures taken toward the reduction in the size of the State are:

- 
- Privatization of "CNB - Cia de Navegação Baiana" (State navigation company);
- 
- Privatization of "Coelba – Cia de Eletricidade da Bahia" (State electricity company);
- 
- Privatization of "Baneb – Banco do Estado da Bahia" (State bank) (to be accomplished in 1999).

## 4 – STATE PLANNING

### 4.1. SUSTAINABLE DEVELOPMENT STRATEGY

The State Government has strategically adopted the principle of self-sustainable development based on its planning concept. This concept assumes that the planning process must adjust in terms of space and time the economic growth, the rational use of the natural resources and social equity.

### 4.2. PLANNING INSTRUMENTS

Under the Federal and State Constitution, the planning of the public sector is made through three basic instruments: the Pluri-Annual Plan, in which the medium term guidelines, objectives, goals and priorities are established; the Law of Budgetary Guidelines, in which the goals and priorities of the Administration for the following term are set; and the Annual Budget, composed by tax, companies' investments and social security budgets for each fiscal year.

### 4.3. PLURI-ANUAL PLAN

The Pluri-Annual Plan - PPA, which due to a constitutional condition must last four years, sets the guidelines, objectives and goals of the Public Administration for capital expenses or capital related expenses, and also for the expenses related to continuous programs. The PPA is structured on development dimensions that include the central policies of the government, which are a set of guidelines, priorities and criteria that orient the different programs underway.

As an extension of the PPA, considering the strategic importance of the Industrial Sector within the development dynamics of the economy of Bahia, the State Government together with the local businessmen, represented by the "Federação das Indústrias" (Bahian Industries' Association) is concluding the Strategic Program of the State Industrial Development, which has been created with the participation of highly skilled technical consultants. This program extrapolates the boundaries of a merely sectorial approach and includes four structuring programs, whose objectives are to support the transition of the Bahian economy to a new industrial development pattern.

Its scope is the definition of a new industrial development pattern, based on the consolidation of more compact productive chains, reinforcing its inter-sectorial links downstream and upstream, introducing products of higher aggregate value, as well as stimulating the constitution of a business network along other links of the chain.

#### **4.4. OBJECTIVES OF THE STRATEGIC INDUSTRIAL DEVELOPMENT PROGRAM**

The objectives of the Strategic Program of Industrial Development are:

- a) Productive density and industrial structuring;
- b) Logistic integration;
- c) Education for competitiveness;
- d) Energy supplies;
- e) Selective use of space.

#### **4.5. NORTHEAST'S INITIATIVE (CLUSTERS)**

Following the innovative approach of public policies - through a higher degree of integration with the public sector - the "Projeto Iniciativa pelo Nordeste" (Initiative Project on behalf of the Northeast) ought to be distinguished. The latter results from a partnership among the state governments of the Northeast, the private initiative, the World Bank and other governmental and non-governmental institutions, aiming the application of the *clusters* methodology for regional development. Initially, the fruit crop, grain and tourism *clusters* are being developed, to which new segments ought to be added in the future.

#### **4.6. OPERATIONAL PARTNERSHIPS**

The planning strategy of the State Government also involves the establishment of partnerships with the private sector at an operational stage, aiming to solve infrastructure problems. This is the case of the Transportation Intermodal Operative Consortium of Bahia, whose objective is to coordinate the interests and actions related to the implementation of the Transportation Intermodal Corridor of Bahia. Twenty-four institutions, public and private companies, involved in transport logistics, have already joined this consortium. This intermodal corridor includes: the Waterway of San Francisco river, 1,371 km long; the new fluvial port of Juazeiro, now under construction by the State Government for future privatization, and the modernization of the railroad connection to the port complex by Todos os Santos Bay, in Salvador Metropolitan Region.

#### **4.7. PPA EXECUTION**

The Pluri-Annual Plan has been taking place, physically and financially, with the necessary adjustments determined by circumstantial variations. In this manner, the State Government has been developing its administrative action, according to the guidelines included in the axes or dimensions of the PPA

## **4.8. STATE BUDGET**

Considering the legal instruments of Planning, already mentioned, it's important to relate to the annual budgets, which have an "authorizing" role. The annual budgets must be duly compatible with the Pluri-Annual Plan, in which the priorities mentioned are preserved, and the goal of reducing regional inequalities remains intact.

Composed by the fiscal budgets, social security and by companies' investment, the State General Budget for 1997, reached US\$6.6 billion, including the share of the resources coming from the State Treasury (US\$6.1 billion)

It's worth mentioning that the average percentage of accomplishment of the budgetary revenue of the State Treasury, throughout 1994 to 1996, was 82.8%, while the percentage of the expenses was 86.5%.

### **4.8.1. Bill of Projects, its Financing and its Effects on the State's Accounts**

In order to accomplish the investments needed to the State's economic growth, the State's own resources have been supplemented by loans coming from national and international financial institutions.

Currently, the bill of foreign loans total US\$2.1 billion, from which US\$1.8 billion are already being spent and US\$292 million are being negotiated. From the total resources, US\$1.1 billion come from direct financing and US\$993 million come from resources originated from domestic and foreign loans and from the State Treasury.

### **4.8.2. Sources and Destinations**

From the total investments programmed (US\$2.1 billion), direct financing is distributed among IDB (32%), World Bank (20%), and FIDA and KFW (1% each). The counterparts come from OECF (4%), National Banks (11%) and the State's own resources (31%).

These resources are destined, as a priority, to the social area, to economic infrastructure, and to tourism supporting areas.

### **4.8.3. Execution Stage**

The financing of two of the 12 programs underway has already been concluded (PRONI and the Metropolitan Project); two programs (Sanitation Sector Modernization Project - PMSS and Transport Corridors' Project), which are being negotiated must be concluded in 1998. The other contracts, including the Environmental Sanitation of Todos os Santos Bay - BTS and the Regional Development ones (PRODETUR and PRODUZIR) must be concluded by the year 2001. The PRODUR (Urban Development Program) and the Hydro-Resource Management Program are expected to be concluded by the year 2002.

### **4.8.4. Balance and Disbursement**

Throughout 1998 and 1999, there will be more resources from financing coming in. From US\$ 2.1 billion relative to the contracts underway, the State had already received by November 1997, US\$ 338 million from foreign sources, US\$ 137 million from domestic sources, and US\$ 156 million from the State Treasury. These values correspond to around 30% of the total.

In conclusion, the State's credibility within international development institutions, like the World Bank and the Interamerican Development Bank - IDB, can be demonstrated by the recent decision of the latter to support not only the public sector but also the private sector, through the IDB Group (CII - Interamerican Investment Corporation; FUMIN - Multilateral Investment Fund; and PRI - Private Sector Department). Under this scope, it has formulated a strategic program for supporting the participation of the private sector in the state economy, including the tourism segment, in order to boost the business activities. This initiative has also led the IDB to finance wide-spanning programs, not only specific projects.

Regarding the support from the national development institutions, it must be mentioned the variety of programs that contribute to the growth of the tourism sector, through many different financing possibilities to the public and private investment. Some examples are: BNDES (National Program of Financial Tourism, Automatic Finame / Competitive Northeast), BNB (PNE / Various Programs), and Desenbanco (Proturismo).

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## **5 – INVESTMENT PROGRAMS**

### **5.1. EDUCATION**

The State of Bahia has been concentrating investments on the improvement of the quality of education. The governmental project for educational sector is directly linked with the transformations that have been taking place in the social context. In order to meet the current expectations for improving the quality and raising the schooling level of the population, the following actions are being introduced:

#### **5.1.1. Main Actions**

- 
- organization of the managerial processes;
- 
- recovery and expansion of the school system;
- 
- appraisal of the education professionals (teachers, coordinators and technicians);
- 
- improvement of the quality of the teaching-learning process;
- 
- development of practices focused on technological advances.

The State public school system has 4,345 schools, elementary and high schools, in which there are 1.8 million students. The state public network is complemented by municipal schools and by private schools.

It's worth mentioning Anísio Teixeira Institute's role within the education program, for its double objective: appraisal of the education professional and improvement of the quality of public schools. Its priorities - teachers' qualification, and technological and educational experiments - represent the search for renewing teaching-practices alternatives, and consequently, for achieving public schools' credibility. Between 1995 and 1997, Anísio Teixeira Institute trained 292,335 teachers at 3,141 events and conducted research and educational experiences at schools. The Teachers' Training Program has enabled teachers to obtain wage incentives that vary from 5 to 15% of the salary, according to the course duration (40 to 360 hours).

#### **5.1.2. State Program of Informatics at School**

Focused on the modernization and upgrading of the efficiency patterns of public schooling, the State Program of Informatics at School is initially installing 8,910 computers in 681 schools of the state system, in 238 municipalities. Together with the Education Ministry - MEC, another 16 Centers of Education Technology are being installed, in order to train teachers in the use of computers in the classroom.

#### **5.1.3. Reading-Learning for Youngsters and Adults**

Through the Reading-Learning Program for Youngsters and Adults - AJA BAHIA, the State Government has been fighting illiteracy.

- 
- **Goal of AJA BAHIA**



Its goal is to reduce by 1999, illiteracy among adults and youngsters above 15, by 40%. This is expected to benefit more than one million people, assuring their right to education and consequently to a more honorable life.

## Illiteracy Drop

As a result of governmental action that has been progressively improving the conditions for attending school, the illiteracy rate of the 5-year-old and older population, in Bahia, between 1990 and 1995, presented a significant fall of 16.8 percentile points, a result that is much above the one reached during the whole 80 decade, according to the data collected by PNAD/IBGE - National Research by Household Sampling (Pesquisa Nacional por Amostra de Domicílios)

### Drop of the Illiteracy Rate, According to the Ages, in Bahia

1981 – 1996

AGES	ILLITERACY RATE		
	1981	1990	1996
5 years old or more	43,7	39,6	26,9
7 to 14 years old	49,1	43,8	23,2
15 to 49 years old	29,9	26,1	17,1

Source: IBGE-PNAD

- 
- **College Education**

Bahia has seven universities: five public universities (a federal and four state universities), and two private; and 17 independent colleges.

#### 5.1.4. Education Program for Competitiveness

The Education Program for Competitiveness, which is to be introduced, is focused on the rise, in medium term, of the education patterns and professional qualification, in order to absorb new technologies and new organizational practices, which should contribute to the improvement and expansion of the professional education in strategic areas, and consequently to Bahia's economic development.

- 
- **Components: Three Projects**

The proposed Program is composed of three projects:

- 
- Long Distance Education;
- 
- Professional Education in Emerging Sectors; and
- 
- Development of a Business Culture and Incentive to Partnership.

## 5.2. TRANSPORTATION

Through the period from 1995 to 1997, there were significant investments in building, pavement and recovery of roads, corresponding to a total of 3,104 km. Moreover, there was the regular maintenance of 2,739 km of roads,

in which the Transportation Roadways Program was the most important tool used by the Government. US\$297 million, financed 50% by the IDB and 50% by the State's own resources was invested. The Program involved the construction and pavement of 2,000 km of roads.

The Government policy for transportation, during the current administration, has emphasized the integration of different transportation systems aiming to facilitate the flow of production, to reduce costs and to increase the competitiveness of the Bahian economy. For this purpose, the Government has conceived and is already implementing the "Corredor Intermodal de Transporte" (an intermodal transportation system), situated in the San Francisco River, that combines in one system waterways, roads and a railway. The system connects all the sailable part of the river (1,371 km within the State) to many roads and to one railroad, the "Centro Atlântica". This system conducts to the Salvador and Aratu ports all the economic production of the West and San Francisco regions, at a reduced cost.

The airports of the State received special attention from the Government, in the same period of time (1995 – 1997), with the development of a systematic program of reforms and improvements of the small airports of the interior, and, simultaneously, with the construction and/or improvements of the airports of the regions with some tourist appeal. Some distinction must be given in this work, for instance, to the construction of the airports of Piritiba and Mimoso do Oeste, in Barreiras region, both finished by now; to the landing runway and marshalling yard enlargements of the Porto Seguro airport, enabling it to receive large aircrafts like the 767-400 Boeing; to the construction (in progress) of two new airports in the interior: one in Valença, near Morro de São Paulo, and the other in Lençóis, in the Diamantina Tableland region; also to some repairs and improvements of the airports of Jequié, Irecê, Barreiras, Feira de Santana and Esplanada, among many others.

### **5.2.1. Some Studies and Projects for the Road system**

In the period from 1995 to 1997, the State Government prioritized the improving and strengthening of the State's transportation infrastructure, which were deemed fundamental to the policies and programs of the economic development strategy. Bahia's geographic location, at an important obligatory road junction of the country, in all the North/South and Northeast/Central connections, elevates even more the importance of a well planned transportation system.

Within this context, in which the internal and external transportation systems are equally relevant, the State Government has been developing a plan to identify and eliminate the strangling points still existing in its road system. The current road system is composed of 4,463 km of roads under federal jurisdiction and of 18,377 km of state roads, in addition to around 100 thousand km of non-paved municipal roads. Among the actions regarding the State's transportation system, it is important to highlight the elaboration of projects and studies for new road sections, aiming to create conditions for future financings and investments.

In this period of time (1995 – 1997) some final engineering projects for a total of 2,080 km of new road sections, in many different regions of the State, comprising resources of about R\$4.5 million was elaborated.

### **5.2.2. Enlargement and Improvement of the Road system**

The State's road system, with its 18,377 km (of which 7,094 are paved, 4,102 have TCP – anti-dust treatment, and 7,180 have primary revetment) and its heavy traffic, demands a permanent effort and a significant investment in maintenance and repairs. The main instrument of the Government to develop and execute its policy of strengthening the State's transportation infrastructure, basically the road system, is the Transportation Roadways Program, one of the most important programs of the current administration.

After reaching a critical point, at the beginning of the '90s, the Bahian roadways (state ones and the federal ones), were recovered 6 years ago, when the Government initiated this huge project concerning the repairs and improvement of all state roads. In the period 1995 – 1997, the Transportation Roadways Program performed an important role in this strategy, helping the flow of the agricultural, industrial and mining production and fostering tourist activity.

During this period, 2,523 km of roads, 747 km with the State's own resources and 1,776 km from the IDB program, totaling to an investment of R\$168.4 million, were constructed.

### Interventions in the Road system 1995 - 1997

Kind of Work accomplished	Extension (km)	Amount (R\$ thousands)
<b>Ready (a+b)</b>	<b>3,103.9</b>	<b>193,095.9</b>
Construction/Pavement (a)	2,523.5	168,440.5
Restoration/Pavement (b)	580.4	24,655.4
<b>In Progress (c+d)</b>	<b>825.9</b>	<b>145,318.5</b>
Construction/Pavement (c)	696.0	118,914.0
Restoration/Pavement (d)	129.9	26,404.5
Maintenance (e)	2,738.6	15,469.0
<b>Total (a+b+c+d+e)</b>	<b>6,668.4</b>	<b>353,883.4</b>

Source: Derba

### 5.2.3. Roadways, Waterways and Air Transportation Infrastructure

As mentioned earlier, the State Government has adopted a transportation policy that aims to integrate the different kinds of transportation means, to rationalize the flow of State production, reducing costs and, in this way, increasing competitiveness. Within this policy, one of the most important strategies is the development of the waterways system, taking advantage of the many sailable parts of the State's rivers and linking them to the railways and roadways systems. This is actually the proposal of the "Corredor Intermodal de Transportes" (an intermodal transportation system), a territorial integration model that uses in only one system three different kinds of transportation means, creating the necessary infrastructure to solve at last the problem of production flow.

Besides the Intermodal System, the State Secretariat of Energy, Transportation and Communication has developed, in the years 1995 – 1997 many other different actions to foster the waterways transportation system, including among them the concession to the private initiative of Salvador/Bom Despacho/Salvador line and to "COMAB - Consórcio Marítimo da Bahia" of the ferry-boat system for 25 years. Adding to this, the Government has conducted some studies of economic viability for a better use of the waterways system and has taken some actions concerning the improvement of the sailing system in the areas of Baía de Todos os Santos, Valença and Camamu.

Among the investments made by the State with the objective of improving the waterway transportation system, the Government has invested R\$1 million in the construction of Ponta do Curral/Bom Jardim harbor, in the municipality of Valença, and the enlargement of the Gamboa/Ilha de Itacaré harbor, facilitating access to Morro de São Paulo, which is one of the most important tourist attractions of the Bahian coast. The waterways terminals of Santa Cruz de Cabrália, Tombador, Porto Seguro, Apaga Fogo e Barra de Serinhaém were completed between 1996 and 1997. Still in progress are the Cairu, Juazeiro, Ponta do Curral and Gamboa terminals. There are some studies and projects for the implementation of waterway terminals in Ilha Grande, Barra Grande and Maraú, in the Camamu Bay, in Ponta de Nossa Senhora (Ilha dos Frades), in Cacha Pregó (Ilha de Itaparica), in Botelho and Itamoabo (Ilha de Maré), and in Ibotirama (San Francisco River).

### Waterway Terminal – 1996 – 1997

• Kind of Work	Municipality/Location
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<b>1996</b>	Santa Cruz de Cabralia Tombador
<b>1997</b>	Porto Seguro Apaga Fogo Barra de Serinhaém
<b>In progress</b>	Juazeiro Cairu/Canavieiras Ponta do Curral Gamboa

Source: DTT

The Government of the State is developing a systematic program of reforms in small airports all over the State, with the main objective of offering logistic support to commercial aviation, and creating faster locomotive alternatives for the population of these regions. A policy of construction and improvement of airports in the regions with some tourist appeal has also been developed during the same period of time (1995 – 1997). This is the case of the airport of Porto Seguro, where the State invested R\$5.6 million in the enlargement of the landing runway (more 200m in length and 15m in width), giving it the necessary dimensions for receiving large aircrafts like the 767-400 Boeing. Besides this, the marshalling yard has been enlarged in 15,456m, doubling its previous capacity. The construction of two other big airports are in progress: one in Valença – Guaibim, near Morro de São Paulo, and the other one in Lençóis, in the Diamantina Tableland region, both permitting the landing and taking off of large airplanes, like the Boeing 737-400.

The airports of Piritiba and Mimoso do Oeste, in the Barreiras region, in which the Government invested resources of about R\$516 thousand were constructed. Both airports have landing runways of 1,200m, marshalling yards with 4,800m<sup>2</sup> and asphaltic revetment. One must mention as well, the reforms of the airports of Teixeira de Freitas, and some improvements in the airports of Adustina, Poções, Santa Maria da Vitória and Esplanada.

A very important project in this area was initiated in 1998: the enlargement of the International Airport Luís Eduardo Magalhães, in Salvador, through an agreement with Infraero and financing from the IDB, PRODETUR. The project, which will represent an expressive improvement of the Bahia's airports complex, will have a significant impact on tourism in the State, increasing its operational capacity from 2 million to 4 million passengers/year. This reform will classify the airport among the largest and most modern ones in Brazil, completely computerized and safe, able to receive 22 airplanes at the same time. The conclusion of the project is expected for the end of 1999, with a total investment of R\$105 million.

Between 1995 and 1997, the Secretariat of Energy, Transportation and Communications improved the roadway transportation system for passengers, adopting some measures for a better performance in this area. Among others, one should mention the procurement for the concession of 17 intermunicipal lines, the contracting of services for 4 new lines, with the placement of 10 new buses in the system, without any additional cost to the user; a vigorous inspection in all intermunicipal buses, taking out of circulation the ones in bad condition, replacing them with new ones and guaranting to the public more comfort and safety. The firms that operate the passenger transportation system have acquired 520 0km buses, representing 30% of total buses in circulation. Finally, one should mention as well the agreements signed by the State with the municipalities of Mata de São João, Camaçari, Itacaré, Simões Filho, Dias D'Ávila, Itaparica and Camacã for the inspection of the passenger

transportation system, and the agreement signed with the Military Police of the State for the inspection of the public transportation system (within each city).

### Projects of the Airports - 1995 - 1997

Kind of Project	• Municipality
<b>1996</b>  Construction  Enlargement  Recovering	Buritirama  Porto Seguro  Canavieiras  Remanso  Feira de Santana
<b>1997</b>  Construction  Enlargement  Reconstruction  Conservation	Piritiba  Barreiras – Mimoso do Oeste  Paramirim *  Valença *  Lençóis *  Itapetinga  Teixeira de Freitas *  Poções  Adestina  Santa Maria da Vitória  Esplanada  Mucugê *  Xique-Xique *  Campo Alegre de Lurdes *  Pilão Arcado *  Ibotirama *

Source: DTT

\* In progress

## 5.3. HEALTH

### 5.3.1. Structuring the Service System

The Government of the State of Bahia, through the Secretariat of Health – SESAB, between 1995 and 1997, acted in many different ways towards the common objective of increasing and providing adequate health services system to the population needs and improving the quality of the assistance given. Some of the measures adopted were the decentralization of services, the improvement and modernization of the buildings, the training of personnel and the adoption of a third party administration method.

To achieve this objective, one of the important actions of the period was the Program of Decentralization of Emergency Assistance in the Metropolitan Region of Salvador. This program, through the construction, reform and enlargement of health units and the implementation of high resolution units in hospitals and health centers of the peripheral and populous areas of the city, has offered the best quality and most complete service within the district, avoiding the super-occupation of hospitals like the State General, Roberto Santos and Ernesto Simões.

Another important action was to invest more than R\$25 million in the recovery, reform, enlargement and construction of various health centers, like the ones that integrate the Program of Decentralization of Emergency Assistance in the MRS. Examples are: the 8<sup>th</sup> Health Center, Hospital Eládio Lassere, Hospital Menandro de Farias, Pirajá Emergency and Hospital João Batista Caribé, that serves the railway suburb, and in the interior the constructions of the Ibotirama, Guanambi, Mairi and Porto Seguro Hospitals, the last three works still in progress.

### Medium and Large Projects

Year	Quantity	Investment (in R\$ thousands)
1995	67	6,407
1996	67	8,482
1997	36	10,496
<b>Total</b>	<b>170</b>	<b>25,385</b>

- Source: SESAB/Semus

In this period, the State Government, through SESAB, has also recovered and adapted the Hospital Prof. Carvalho Luz, changing it into a special assistance center to chronic diseased and burned patients and patients with recoveries that need constant care. In 1997, the reforms of the Central Hospital Roberto Santos and the State's General Hospital were initiated and are still in progress. The Engineering and Maintenance Service of the Health Units (Semus) is executing another 50 works, totalling an investment of R\$22.8 million.

The policy of decentralization of the public services, adopted since 1993 and that, this year, has transferred 824 centers from the State's control to the municipalities was reinforced.

In the period 1995 – 1997, there were 36 agreements signed to complete projects in 29 municipalities, in the amount of R\$7.4 million. As well there were 229 other minor works executed by regional administrative units.

In the first quarter of 1997, in the perspective of the proposed financing by the Project "Reforço à Reorganização do SUS – Reforsus" (efforts for the reorganization of the health system), which is an initiative from the Ministry of Health and financed by the World Bank and IDB, SESAB assessed and analyzed 153 proposals presented in response to the proclamation # 01 – Material and Technological Readequacy of the Assitancial System. Sixty-

nine of the proposals were considered eligible, for a total amount of R\$42.3 million; 51 of these were from the public sector.

### **5.3.2. Acquisition of New Equipment to the Health System**

In 1997, SESAB invested R\$10.1 million in the equipment and upgrading of health services all over the State. The investment involved the acquisition of new high technology equipment such as an automatic cell counter, for the Cican, and bronchofibroscopies with high image resolution for the Hospital Otávio Mangabeira, which were only available before in private hospitals. Other equipment of high resolution were acquired for Teofilândia and Araci and for the Hospital of Serrinha. The perfect functioning of these and other equipment is assured by the Medical Equipment Maintenance Center – Cemeq/BA.

From the point of view of the decentralization policy adopted in the period (1995 – 1997), the acquisition of new equipment for the health system also included the transfer of some special equipment, priced at R\$7.3 million, to the municipal units and the distribution of 359 ambulances to the administration and health centers of 312 municipalities.

### **5.3.3. Improvement of the Quality of Actions and Services**

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- **Reorientation of the Assistance**

SESAB is reorganizing the basic assistance to health and creating a new assistencial model in Bahia. For this, it has elected the implementation of the following programs: "Agentes Comunitários de Saúde – PACS" (community health agents), "Saúde da Família – PSF" (family health), and "Redução da Mortalidade na Infância – PRMI" (reduction of infant mortality) as one of its priorities.

At the same time, SESAB has searched to improve the secondary and tertiary medical assistance, mainly in small and medium municipalities, where it has supported the formation of "Consórcios Intermunicipais de Saúde" (inter-municipal consortiums of health).

- 
- **Assistance to Women and Children's Health**

Keeping the pact established by the Northeast Health Secretaries about the reduction of infant mortality, Bahia has given priority to the actions regarding the prevention of women and children's health, in those municipalities considered to be of high risk. The strategy is based on sectorial and inter-sectorial decentralized actions, reinforcing the process of municipalization of health.

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- **Reduction of Infant Mortality**

Aiming to achieve the goal of reducing infant mortality by 50% in 5 years, the Government of the State has been using strategic programs like PACS, PRMI and PSF.

PACS is one of the programs that has experienced fast growth in the State. Implemented in 1995, it's been demonstrating efficiency in the basic assistance to rural and urban peripheral populations, giving emphasis to the mother-child segment. In its implementation, it had 1,805 community agents and covered 270,750 families. In its first year, the areas covered by the program presented a reduction in infant mortality, showing the necessity of enlarging its range of actions, that up to that moment was only 75 (18.1%) Bahian municipalities.

The data collected from the information system of PACS, Sipacs, confirm the impact of the agents' actions in the beneficiary communities. In 51 municipalities, the infant mortality ratio, which in 1994 was 111/1000 live births, has fallen to 49,5/1000 live births, in the second semester of 1996. In the first semester of 1997, the very same ratio was 48.3/1000 live births in 93 municipalities that had informed Sipacs. This ratio when compared to

the 1994 one shows a reduction of 62% in the infant mortality rate in the municipalities where PACS was implemented.

Another important instrument of the new health assistance model of the State, based on the decentralization and intersection of actions, is the PRMI, which spreads information regarding the mother-child health issues. Its execution involves Municipal Health Secretariats, ISC, "Pastoral da Criança" and Unicef.

During the period 1995 – 1997, PRMI was implemented in 113 municipalities. Regional Working Groups in 28 Regional Head-offices, and 102 Municipal Working Groups in 93% of the expected municipalities were created for this reason. There is a significant increase in the number of municipalities where all the actions related to the health of women and children are effectively implemented in the health units.

In 1997, the program has relied on resources from the contract signed in Oct/1996 with Vale do Rio Doce Co., in the amount of R\$1.17 million, which included the pilot project of Serrinha region (5 municipalities).

Another strategic program, PSF, which was created in 1996, elects the family and its basic social influence as an approach to health. This program is already implemented in 9 municipalities – Jussari, Ituberá, Guanambi, Itagi, Rodelas, Jaguaquara, Itacaré, Itabuna and Pedrão – while another 101 municipalities have applied for its implementation.

The PSF program acts in those municipalities with high rates of infant mortality and low basic health actions, which had already integrated the PACS and "Comunidade Solidária" programs. Counting on a multi-disciplinary team, the program considers the necessity of a new primary assistance model based on lower cost and higher productivity actions.

The workers' health, mental health, prevention and assistance of deficiencies and the creation of the Health Care Center for Old People are some of the specialized services provided by the State's public health system, together with the above mentioned programs. In addition, the State has also made some investments in the areas of clinical assistance, hospital assistance, blood control, epidemiological vigilance (inspection), sanitary vigilance (inspection), laboratories and the training of personnel.

#### **5.4. PUBLIC SECURITY**

The State's policy for safety and public defense, during the period 1995 – 1997, presented wide characteristics such as the interiorization, expansion and modernization of its administrative and operational agencies, a continuous investment on training of the Civil and Military Police, and the enlargement of the number of vehicles of all forces, including the Fire Brigade.

Such a policy has reinforced the reputation of the State of Bahia as a place where the level of safety is considered to be satisfactory. Contributing to this, as well is a greater efficiency of the security organisms. Another factor has been very important: the great number of projects and governmental programs aimed at the generation of employment and the increase in income levels, which are reducing the social and economical pressures that act to induce criminality.

For these reasons the State presents a downward slope criminality curve. Actually, in the last three years the number of police occurrences diminished in 38% in Salvador and 11% in the State. That's an extremely significant event, especially when one considers the tourist appeal of the State, which demands favorable conditions of infrastructure and services, among which public safety is one of the most important.

The State is investing in projects that give priority to the preventive aspects of police actions, instead of those merely repressive. That's the case of the Project "Polícia Cidadã", which is promoting a better integration between the Military police and the community in various districts of Salvador, from traffic educational campaign to the public services, among many other initiatives of the Secretariat of Public Security.



Through these actions, the Government aims to keep making the State of Bahia a better and safer place for its citizens and tourists.

#### 5.4.1. Modernization of the Security Services

Aiming to create a better integration with the community and let this relationship become a tool for a more efficient and preventive security, the Military Police has assumed a new operational conduct for the year 1997. A modernization program, supervised by the Administration and Technology Center (Cetead), from UFBA, was implemented. The project "Polícia Cidadã", that approaches the issue of public security in an educational perspective, was also created. The initiative represents an important step for the Military Police regarding the quality of services provided to society.

The State also created the 11<sup>th</sup> Military Police Independent Company that, operating under the philosophy of Polícia Cidadã, assists the districts of Barra, Graça and Vitória Square. With 290 policemen and 14 vehicles, the unit is responsible for the reduction of accidents in the area, without registering bank or bus assaults. In the first three months of activities, the company had only car accidents without victims as its major occurrences.

For the sake of this and other initiatives of public security and defense to be enlarged, the Government of the State has increased the number of policemen working and has promoted training for a greater qualification of its forces. In the last three years, 5,453 new civil and military policemen have been admitted to the police board, increasing the total number of effective workers to 28,924 people. In this period, around R\$1.2 million has been invested in the training of 11,481 professionals to learn new techniques of patrolling and investigation.

#### Admission of Personnel - 1995 – 1997

Occupancy	1995	1996	1997	Total
Police Officer	188	55	32	275
Criminal Expert	68	-	-	68
Coroner	70	-	-	70
Officer Trainee	-	46	27	73
Military Policemen	300	1,806	2,861	4,967
<b>Total</b>	<b>626</b>	<b>1,907</b>	<b>2,920</b>	<b>5,453</b>

Source: Asplan

The training included about 700 military policemen acting as security agents in the Tourist Corridor of Salvador. They have participated in the Program for Professional Qualification, with resources from FAT, through an agreement between the Military Police and the Secretariat of Work and Social Action.

#### 5.4.2. Expansion and Improvement of the Units of the Public Security Secretariat

Between 1995 and 1997, 12 operational and security units were built, and another 21 units were recovered and enlarged, totalling an investment of R\$5.2 million. In 1997 alone, 5 new units of the SSP: the Security Unit of the Battalion of the 3<sup>rd</sup> PM Company, in Lobato, railway suburb of Salvador, and the operational units for security for the Civil Police of the municipalities of Teixeira de Freitas, Ipirá, Irecê and Brumado were built, adding up to a total investment of R\$3 million.

Regarding the acquisition of new equipment for the security forces, R\$4.6 million has been invested. In the period 1995 - 1997, 2,612 vests, 1,000 shackles and 2,063 guns, besides 368 thousand munitions cartridges for the Civil and Military Police, which cost R\$1.7 million were also acquired.

In the same period of time, the Government, through SSP, invested R\$32.9 million in the acquisition of 1,319 vehicles (791 in the year 1997), 491 for the Civil Police, 5 for the Technical Police, 99 for Detran, 20 for the Fire Brigade and 704 for the Military Police.

### Acquisition of Vehicles - 1995 - 1997

#### Actual Investment – R\$ thousand

Agency/Entity	1995	1996	1997	Total
Civil Police	-	3,689	6,068	9,757
Military Police	310	6,548	11,942	18,800
Technical Police	-	237	-	237
Fire Brigade	-	2,993	-	2,993
Detran	125	967	-	1,092
<b>Total</b>	<b>435</b>	<b>14,434</b>	<b>18,010</b>	<b>32,879</b>

Source: Asplan

### Construction of Operational Units - 1995 – 1997

Year	Investment (R\$ thousand)
1995	1,067
1996	1,071
1997	3,072
<b>Total</b>	<b>5,210</b>

Source: Asplan

### Recovery of Operational Units - 1995 - 1997

Year	Investment (R\$ thousand)
1995	844
1996	1,495
1997	412
<b>Total</b>	<b>2,751</b>

Source: Asplan

## 5.5. BASIC SANITATION

### 5.5.1. Water Resources, Sanitation and Housing Sector

Water Resources, Sanitation and Housing Secretariat – SRHSH is responsible for all the projects and executions in the area of Water Resources, Sanitation and Housing. As such, it is formed by three companies: EMBASA (mixed capital); CERB and URBIS (state-owned); and "Superintendência de Recursos Hídricos" (Water Resources Superintendency) (Autarchy).

Sectors concerned with environmental issues are growing at a fast pace not only institutionally and scientifically but, mainly, politically, with the development of a collective conscience where the concept of sustained development has been definitely adopted by society.

With this concept in mind, combining environment with life quality - within an overall development process - the State Government is implementing its main programs, prioritizing actions and investments that address the rise in social opportunities, economic growth, preservation of natural resources and social justice.

During the 80s, the accumulation of sanitation deficiencies in Bahia created increasing difficulties for the recovery and improvement of the state's sanitary conditions. Starting from 1991 the segment showed great progress after the change-over in the political scene and the new priority applied to the sector.

In 1991, the Bahia State Government, aware of the serious social situation, sought investment alternatives for social development, since the state economy up until then had shown constant growth and stability. It tried to negotiate social investments financed with international resources intended, mainly, for urban infrastructure and basic sanitation areas, where the lack of social needs called for much needed intervention.

Sanitation coverage figures in the urban area of the State of Bahia, on a comparative analysis with those of Brazil and the northeast, reveal the precariousness of the water and sewage services in the state. On the other hand, the analysis of the investment program planned for sanitation, the government's priority area, shows the State's primary interest in the reversal of such a situation. Working unceasingly to accomplish, by 2001, better levels of coverage of water and sewage services, this Government's goal is to surpass the current service level of 86% (water) and 13.5% (sewage) to 91% and 48% respectively.

After the State of Bahia recovered financial and administrative stability in 1993, the State Government was able to promote an extensive investment program aimed at improving the population's standard of living. Originally, it negotiated with the World Bank - IBRD financing contracts for the Metropolitan and Water Sector Modernization projects and, in 1992, submitted a request for inclusion in the Interamerican Development Bank's priority financing list of its Todos os Santos Bay Environmental Sanitation Program, currently under execution.

The availability of water and sanitary sewerage services to poorer populations, in many cases, requires the provision of unencumbered resources from the State and Federal Government in a compensatory action. Thus, the participation of the Federal Government in subsidizing the investment is part of the sector's financing policy oriented to the universalization of the service. The subsidy on consumption, whenever necessary, is the states' and municipalities' responsibility, subject to the basic supply.

The National Sanitation Policy is directed towards an all-embracing availability of water supply and sanitary sewerage services in order to meet the individual's fundamental and basic needs in harmony with environmental preservation.

As a result of this policy, the state's investments have increased in order to further expand the levels of coverage of sanitation services to the population of Bahia, particularly the works aimed at installing, expanding and improving water supply and sanitary sewerage systems. Investments have already been made in this respect from the State Government and national financial institutions, such as "Caixa Econômica Federal – CEF" (Sanitation and 'Better Living' programs), Banco Nacional de Desenvolvimento Econômico e Social - BNDES, and international institutions, such as IDB, IBRD and OECF mentioned before, in the Blue Bahia program.

The housing question is being faced with the objective of reverting the existing qualitative deficit. The "Viver Melhor" Program, conceived in this approach, aims mainly at recovering encroached areas in the urbanization of shanty towns, serving primarily the population with family incomes under 3 minimum salaries (equivalent to

R\$130), providing the area with basic infrastructure and improving the standard of living of the benefitted population.

In the Water Resources segment, the Government's goal is to apply basic and institutional infrastructure in the strengthening of the sanitation and water resources sectors in order to ensure availability and rational use of water and the preservation of the sources of supply.

### 5.5.2. Funded Resources

During the period 1995/1997, the State Government continued its financial programming strategically directed to socioeconomic issues related to the sanitation and housing sectors. It succeeded in obtaining funding in domestic and foreign markets, i.e., Caixa Econômica Federal - CEF, Banco Nacional de Desenvolvimento Econômico e Social - BNDES, Interamerican Development Bank - IDB, World Bank - IBRD, Overseas Economic Cooperation Fund - OECF and the German Bank - KFW.

The ongoing investment programs comprise funded resources totaling US\$1,035.2 million, US\$526.5 million of which is in external financing and US\$508.7 million domestic, which is to be applied in the period 1995/2001.

Considering that a portion of these contracts is destined for the partial financing of the state counterpart of some loans, the actual disbursement value of the counterpart is US\$215.5 million which, added to the US\$1,035.2 million in loans, represents a total investment of US\$1,250.7 million. Thus, for each US\$5.81 invested, the state pays US\$1.00, while the financing portion is US\$4.81.

#### Funded Resources 95/97 - Us\$ (Million)

	FINANCING ENTITY	PROGRAM	LOAN US\$	COUNTERPART (actual disbursement)
	<b>Domestic Resources</b>		<b>508.7</b>	<b>77.5</b>
	Cef	Sanitation/Housing	409.3	76.2
	Bndes	Sanitation	87.0	
	Sudene	Sanitation	12.4	1.3
	<b>Foreign Resources</b>		<b>526.5</b>	<b>138.0</b>
	Idb	Sanitation	264.0	79.0
	Kfw	Sanitation	9.2	4.7
	Ibrd	Sanitation/W.Resources	174.5	54.3
	Oecf	Sanitation	78.0	
	Jica	Water Resources	0.8	
	<b>Grand Total</b>		<b>1,035.2</b>	<b>215.5</b>

Source: ASPLAN-SRHS

Out of the counterpart total of US\$310.0 million initially committed with the contracts signed with international agencies, SRHSH holds US\$210.7 million in funds obtained from financial institutions. These are being used as co-financing, to minimize expenditure on local allocations, the state being responsible for the actual disbursement of US\$99.3 million.

	FINANCING ENTITY	CO-FINANCING	
	CEF/IBRD	45.7	
	BNDES/IDB	19.0	
	BDNES/IBRD	68.0	
	OECE/IDB	78.0	
	<b>TOTAL</b>	<b>210.7</b>	

Source: Asplan-SRHSH

Contracts signed with CEF through FISANE (Sanitation Financing Fund), PRÓ-MORADIA, PRÓ-SANEAMENTO programs, PASS and HABITAR BRAZIL programs, are destined for works in the water supply, housing, basic sanitation and urbanization sectors, totaling US\$505.7 million, including the state counterpart. Part of the FGTS resources are being used as co-financing in the Water Sector Modernization Program. There are contracts already signed, totaling US\$24.5 million enabling the expansion of the water supply system, sanitary sewerage, collecting systems and other program-related works.

These resources represent only part of a volume of funds to be made available by CEF to the State of Bahia during the next few years.

#### Funding / Fgts / Ogu - 1995/1997

	PROGRAM / TYPE	RESOURCES (US\$ MILLION)		
		LOAN	COUNTERPART	INVESTMENT
	<b>FUNDED / CEF – 1996</b>			
	<b>SANITATION</b>	<b>141.4</b>	<b>60.5</b>	<b>201.9</b>
	FISANE	5.2	3.5	8.7
	PRO-SANEAMENTO 95/96	81.2	43.4	124.6
	PRO-CONCLUSÃO	22.0	8.9	30.9
	FUNDS FROM THE FEDERAL GENERAL BUDGET 1996			
	-PASS	33.0	4.7	37.8
	<b>HOUSING</b>	<b>88.7</b>	<b>17.8</b>	<b>106.5</b>
	PRO-	54.0	9.9	63.9

	MORADIA/SALVADOR			
	INFRASTRUCTURE IN HOUSING DEVELOPMENTS	16.8	2.9	19.7
	FUNDS FROM THE FEDERAL GENERAL BUDGET 1996			
	-HABITAR BRAZIL	17.9	5.0	22.9
	<b>SUBTOTAL 1</b>	<b>230.1</b>	<b>78.3</b>	<b>308.4</b>
	<b>TO BE FUNDED / CEF - 1997</b>			
	<b>SANITATION</b>	<b>123.0</b>	<b>11.6</b>	<b>134.6</b>
	PRO-SANEAMENTO	123.0	11.6	134.6
	<b>HOUSING</b>	<b>56.2</b>	<b>6.6</b>	<b>62.8</b>
	PRO-MORADIA	56.2	6.6	62.8
	<b>SUBTOTAL 2</b>	<b>179.2</b>	<b>18.2</b>	<b>197.3</b>
	<b>GRAND TOTAL 1 + 2</b>	<b>409.2</b>	<b>96.5</b>	<b>505.7</b>

Source: ASPLAN-SRHS

Out of the Pro-Sanitation counterpart total of US\$72.1 million, US\$20.3 million refers to the PMSS (Water Sector Modernization Program) counterpart.

Funded resources finance the priority programs in sanitation, water resources and housing accomplishing the Government's goal, as detailed in Attachment I "Funded Resources for Program Financing".

TABLE 3 - SUMMARY  
SECRETARIA DE RECURSOS HÍDRICOS, SANEAMENTO E HABITAÇÃO  
FUNDED RESOURCES FOR PROGRAM FINANCING

PROGRAM	US\$ million									
	GINN RESOURCES	BN DES	BUDEME	CEF	OECF	IDB	IBRD	JICA	KFW	TOTAL
<b>SANITATION</b>	123.0	37.0	12.4	264.4	78.0	264.0	123.5	-	9.2	325.5
PROGRAMS UNDER EXECUTION	123.4	37.0	12.4	264.4	78.0	264.0	123.5 *	-	9.2	322.7
PROGRAMS UNDER ANALYSIS	0.6	-	-	0.0	-	-	-	-	-	2.8
<b>WATER RESOURCES</b>	34.0	-	-	-	-	-	27.0	0.3	-	61.3
<b>HOUSING</b>	56.2	-	-	144.2	-	-	-	-	-	200.4
PROGRAMS UNDER EXECUTION	56.2	-	-	144.2	-	-	-	-	-	199.4
PROGRAMS UNDER ANALYSIS	0.0	-	-	0.0	-	-	-	-	-	0.0
<b>GRAND TOTAL</b>	213.2	37.0	12.4	408.6	78.0	264.0	150.5	0.3	9.2	505.7

Source: ASPLAN-SRHS

\* The value of US\$ 123.5 refers to the credit signed by the Federal Government IBRD with dead transfer to CEMASA.

## **6 -TOURISM**

Bahia is the principal tourist center of the Northeast and 2<sup>nd</sup> of the country.

The tourist product in Bahia, 50% of its global flow centered in Salvador, unites in a same space the characteristics of a natural landscape and an unique culture in the country, in which the typical culinary arts, the colonial architecture and popular feasts reveal a strong integration of elements of European and African origin in the formation and in the way of life of the people of Bahia.

By its natural and historic-cultural attractions, Bahia presents an enormous potential for the development of the tourist activity. Owner of the biggest portion of seacoast of the country and of singular views in its interior, Bahia possesses specific cultural, folklore and religious characteristics, manifest in its extensive calendar of popular festivities, in its architectonic patrimony and in its typical food.

Salvador, with its Historical Center registered by UNESCO as Patrimony of Humanity and with its coast clipped into many beaches and dozens of islands, has a varied receptive infrastructure, composed of 170 hostelry units (of which 20 are of international standard hotels) and 25 thousand beds, further to restaurants, bars, nightclubs, malls, theaters, crafts centers, Convention and Fairs Center, rental agencies, tourist agencies, and other equipment and services.

In the last few years, the State Government promoted the total restoration of the Pelourinho, the biggest set of colonial style buildings in Latin America, today transformed into an important point for visitation by tourists, that will find there a synthesis of what best Bahia has to offer in specialized services, in regional and international cooking, in architecture of the XVII and XVIII centuries and in music, with daily shows by the great artists of Bahia, famous in the country and abroad.

The period of popular festivities in Bahia has its high point between December and March (summer months) and has in carnival its supreme point, with more than one million tourists in Salvador, Porto Seguro and other cities of the State's Tourist circuit.

Allied to the historic-cultural aspects and aiming to balance the level of investments, considering the potentialities of each specific region of the State, BAHIA TURSA (State's tourism agency) has defined the main areas of tourist interest, according to the visitors flow, as we are going to see now.

### **6.1. AREAS OF TOURISM INTEREST – DEFINED TOURIST ZONES**

- 
- THE COCONUT COAST
- 
- TODOS OS SANTOS BAY
- 
- THE DENDÊ COAST
- 
- THE CACAO COAST
- 
- THE DISCOVERY COAST
- 
- THE WHALE COAST
- 
- DIAMANTINA TABLELAND REGION

#### **6.1.1. THE COCONUT COAST**

The Coconut Coast, in the northern of Bahia, corresponds to a total of 193 km of coast line, where coconut groves, dunes, rivers, swamps and sweet water lagoons are a constant scenario as well as the presence of the

Atlantic Rain Forest.

The Green Road, a road that connects Mangue Seco in the far north to Praia do Forte, crosses this beautiful region maintaining a critical distance from the areas of environmental preservation. For this reason the route is sometimes more than 10 km from the beach.

At Praia do Forte, the road meets the Coconut Road and leads to Salvador, passing through spots, which are now integrated in the urban development of the state capital.

To describe the route in closer detail, let us begin at the Deputado Luis Eduardo Magalhães Airport, where the Coconut Road begins.

**Lauro de Freitas** – The beaches of Ipitanga, Vilas do Atlântico e Buraquinho are the first sights with coconut trees and places to practice nautical sports, like surfing and windsurfing as well as fishing and deep sea diving.

Continuing on the same road, now in the municipalities of Camaçari, Busca-Vida, Abrantes and Jauá, there are old fishing villages transformed into large resort condominiums with options for sea sports.

**Arembepe** – This was a place of hippies in the 70s and one of the bases of the Tamar Project of IBM, the Brazilian Institute of the Environment, for the preservation of some species of sea turtles which lay their eggs there.

**Praia do Forte** – Known as the Brazilian Polynesia, it has an extensive coconut grove and also contains a base for the Tamar Project - protecting the eggs of sea turtles. With a large infrastructure of hotels and restaurants, this is a favorite spot for foreign tourists, especially Germans. Following pathways along the beach, one reaches natural pools, known as "people swallows". The water is totally transparent four meters deep where various species of fish make their home.

**Massarandupió** – A fishing village with lagoons near the beach, which is protected by large dunes along the coastline.

**Sítio do Conde** -An old fishing village which offers a variety of inns and restaurants and access to ecological sites such as the Barra da Siribinha, 13 km away, where the waters of the River Itapicuru meet the sea.

**Mangue Seco** – This town is famous for having been the scene of the TV series "Tieta do Agreste" based on the novel by the same name by Jorge Amado. The waters near the village are rich in fish and seafood due to the typical wetland vegetation.

Surrounded by great dunes of white sands which shift with the wind, Mangue Seco is an important place for the tourist activity.

One of the rivers of the region, River Fundo, is home to the Peixe Boi, a type of giant fish which can only be found in the Amazon.

### **6.1.2. TODOS OS SANTOS BAY**

The largest bay on the Brazilian Coast, Todos os Santos has a large number of islands with tropical beaches and vegetation. In its 1,052 square km, it contains 56 islands, receive sweet water from numerous rivers and creeks, especially the Paraguaçu and Subaé and bathes the first capital of Brazil and the largest in the Northeast, Salvador, and more than ten municipalities. It is the largest navigable bay in Brazil and one of the most favorite spots for nautical sports, due to its regular breezes, medium annual temperature of 26°C (79°F) and sheltered waters.

Todos os Santos Bay offers various leisure options, with hundreds of vessels of all different types, especially *saveiros*, schooners, motor boats, jet ski that criss-cross its crystalline waters on maritime excursions to the



islands, and boat races. Major popular events and sport activities occur throughout the year, beginning on January 1, with the Procession of Bom Jesus dos Navegantes greeting the New Year.

Todos os Santos Bay has also been traditionally the venue for rowing contests at the Enseada dos Tainheiros, in Salvador; and now the bay is included in the routes of the great international regattas, such as the Ralley Les Iles du Soleil, regatta Hong Kong Challenge and the Expo 98 Round the World Ralley, which consider the bay an important stop along the route.

The islands of the bay are a separate attraction. Some are privately owned, others were declared a state heritage and transformed into Environmental Protection Areas or ecological stations. Other islands are the patrimony of 12 municipalities located around the bay. Only a few are uninhabited and many have small communities where the natives live on fishing and tourism. All have common characteristics, such a calm sea, dense vegetation, especially coconuts and bananas, as well as vestiges of the Atlantic Rain Forest.

Of the 56 islands, the most important are Itaparica, Madre de Deus, Maré, Frades, Medo, Bom Jesus dos Passos.

**Itaparica** – The island is the largest maritime one in Brazil, with 239 square km and two municipalities, Itaparica and Vera Cruz. The island has the only hydro-mineral spa in the country located in the seaside. From Itaparica to Cacha-Pregos the two ends of the island, nearly all the beaches offer safe bathing conditions due to the reefs that break the ocean waves and form natural pools for such species as the octopus, lobster and other crustaceans. Most of these beaches have shallow and calm waters ideal for bathing and every type of nautical sports including deep sea diving to admire the ocean depths. The main beaches are Ponta de Areia, Amoreiras, Porto do Santo, Gameleira, Mar Grande, Penha, Barra do Gil, Conceição, Barra do Pote, Barra Grande, Cacha Pregos, Berlinque, Coroa and Gamboa.

**Ilha de Maré** – This island is still primitive with beaches and villages along the shore. The vegetation is dense with a vast extension of the Atlantic Rain Forest protected by IBAMA, mangos, coconuts and wild sugar cane. Large rocks and wetlands are found on all the beaches of the island. Praia das Neves, approximately 300 m long, has calm waters and vegetation along the coast.

**Ilha dos Frades** – One of the smallest islands in the Todos os Santos Bay, only 8 km long, is also one of the most important in terms of scenery, containing Atlantic Rain Forest vegetation with thousands of native trees, including brazilwood. It is shaped like a 15 point star, and at each point is a beach. It is also considered an ecological reserve, and has been protected by municipal law since 1982.

**Bom Jesus dos Passos** – Located between Madre de Deus and Ilha dos Frades, this island offers a typical view from the lading point from pier to the Bom Jesus dos Passos church. Vegetation is dense. There are two beaches appropriate for bathing, Praia do Padre and Praia da Pontinha.

**Ilha de Madre de Deus** – This island of Maria Guarda belongs to the municipality and is 2.5 km long. From the Praia do Suape, there is a panoramic view of Salvador. The Center of the municipality was a favorite spot for tourists.

**Ilha do Medo** - This is the first ecological station in the Todos os Santos Bay protected by a municipal law in 1991. The predominant vegetation is that of the *restinga* – wetlands with swampland trees. Some of the trees, with thick trunks, appear to be hundreds of years old, such as those in the Mangue Siriba.

### 6.1.3. THE DENDÊ COAST

The Dendê Coast, south of Salvador, is surrounded by verdant vegetation, clear waters, islands, bays, coral reefs and a very diversified fauna. It is connected to Salvador and the southern part of the state by ferryboats and the BA 001 highway, the second ecological highway along the Bahian coast, which connects the southern coastline and the extreme southern part of the state. It includes the municipalities of Valença, Cairu and the International attractions of Morro de São Pulo, Camamu, Taperoá, Ituberá and Maraú. The mouth of the Rio Una, in the form of a delta, contains 26 islands, the largest of which is Tinharé, where the Morro de São Paulo is located. At

Boipeba and Cairú, which are part of the archipelago of Tinharé, the diversity of the ecosystems enables visitors to practice water sports, walk along the beach, follow trails in the rain forest and bathe on completely deserted beaches such as Garapuá. We will briefly describe the most important ones:

**Baía de Camamu** – the third largest in Brazil, is surrounded by green swamplands and wet lands, coconut groves and the Atlantic Rain Forest. It is a place for water sports and camping in the wild.

**Valença** – is a colonial city of the 18<sup>th</sup> century and has a valuable architectonic, cultural and historical heritage. There are 15 km of beaches including Guaibim, Candengo, Ponta do Coral, and the Rio Una wetlands. It is a major center for hand made shipbuilding located on the banks of the Rio Una.

**Morro de São Paulo** – an ecological place of international fame, with more than 40 km of beaches, some of them completely deserted. Morro de São Paulo is the main village of the Ilha de Tinharé, municipality of Cairu. Deep sea diving, fishing, swimming, surfing, walking and horseback riding, bathing in the salt water or sweet water pools of the Fonte do Céu are among the activities of the island. Morro de São Paulo is the venue for various tribes of the international jet set, hippies, outdoor people, singles and natives.

**Barra Grande** – typical fishing village with streets covered with sand and surrounded by mango and cashew trees. This is the calmest beach of the inlet, with a calm sea, appropriate for long walks and hikes.

#### 6.1.4. THE CACAO COAST

Along the southern coast of Bahia, the Cacao Coast preserves ecological sanctuaries with dozens of kilometers of beaches shaded by dense coconut groves, the Atlantic Rain Forest, large areas of wetland vegetation and cacao plantations, the great allies in the struggle to defend the preservation of the Atlantic Rain Forest. Walking along paths in the forest or along the beaches, horseback riding along the coast, boat trips up the vast number of rivers are some of the options that the region offers. Here one can find Environmental Protection Areas at Itacaré/Serra Grande and the Lagoa Encantada in Ilhéus, the Biological Reserve of Una and the Ecological Reserve of Prainha at Itacaré. From the Morro de Pernambuco to Canavieiras, there are 110 km of beaches - some of them highly popular, and other deserted - with clear water, reefs, inlets, coconut grove and an infinite number of estuaries of rivers which extend throughout the Cacao Coast. Highway BA 001 links the municipalities, nearly always bordering the coastline.

The most important locations at Cacao Coast are:

**Itacaré** – Its geographical position results in large waves, the largest in Bahia, excellent for surfers. That is why it is known as Surf City. The small beaches in the form of a shell, the Barra do Rio de Contas, the Ecological Reserve of Prainha, the wetlands and the Atlantic Rain Forest are part of the ecological attractions of the municipality. One attraction of all beaches are sweet water pools and waterfalls as a result of the 28 creeks and brooks that cut the municipality that meet the sea on these beaches.

**Ilhéus** – A region that became famous based on the novels of Jorge Amado, Ilhéus offers a vast numbers of ecological excursions. The trip to Lagoa Encantada, up the Rio Almada, passes by cacao plantations, wetlands and stretches of the Atlantic Rain Forest. From the Lago one can reach the Apepique water falls, 30 m high, and Rio Caldeiras, which has been the scene of TV serials.

**Olivença** – The 18 km that separate Pontal, in Ilhéus, from hydro-mineral spa of Olivença can be reached on foot, along the coconut lined beaches. Olivença is a year round beach resort and one of the most popular spots in summer in the Ilhéus region.

**Tororomba** – It is a bathing resort famous for its ferrous and medicinal waters.

**Una** – contains the largest Atlantic Rain Forest reserve in the region. The Biological reserve of Una is specially known for the preservation of the primate "mico-leão-dourado".

### 6.1.5. THE DISCOVERY COAST

The Discovery Coast preserves, virtually intact, the landscape seen by the Portuguese fleet described in the first pages of the History of Brazil. There are approximately 150 km of beaches, inlets, bays, cliffs, numerous rivers and streams surrounded by the verdant coconut groves, wetlands and the Atlantic Rain Forest. Over land and sea the excursions are always associated with nature, and there are various types of water sports, walks, trips on horseback, surfing and deep sea diving. Recife de Fora, Coroa Alta and Trancoso for one day schooner excursions. BA 001 and two ferryboat systems over the Rio João de Tiba and Rio Buranhém connect the municipalities with the coast. Trips from Barra do Cai, passing through the Parque Nacional do Monte Pascoal, Caraíva, Trancoso, Arraial d'Ajuda, the environmental protection areas of Santo Antônio and Coroa Vermelha, to the mouth of the Rio João de Tiba as far as the Rio Jequitinhonha are among the various ecological trips for visitors.

**Santa Cruz de Cabralia** – The Environmental Protection Area of Coroa Vermelha is one of the marks of the Discovery - where the first mass was celebrated in Brazil, and which is one of the reserves of the Pataxó Indians. Along the left margin of the Rio João de Tiba, the beaches of Santo André and Santo Antônio are also protected by Environmental Protection Areas.

**Porto Seguro** – from the mouth of the Rio Buranhém, Cruzeiro and Ponta da Bica there are three kilometers of largely isolated beach. The Northern beach front features all types of beaches - deserted and crowded, calm sea and rough sea, or beaches protected by coral reefs.

**Arraial d' Ajuda** - also known as the "corner of the world" is the most international beach of the region and is one of the most important parts of the Discovery Coast. There are boat trips to the beaches of Apaga Fogo, Canoas, Mucugê, Tororão, and Pitinga, protected by reefs that form pools.

**Trancoso** – is an old Jesuit village from the 16<sup>th</sup> century, and one of the last examples of the villages dating from early days of the Discovery. It is at the top of a hill with a view of seaside cliffs, the mouth of rivers and coconut groves. The 12 km of beach that separate Trancoso from Arraial d'Ajuda are ideal for trekking.

**Parque Nacional do Monte Pascoal** – With a flat and undulated relief, it is the only National Park with 8 km of beaches where reefs, dunes, wetlands, mouths of rivers and plains are part of the landscape. Aside from Pataxó Indians of the Barra Velha village, the park is home to 10,000 species of plants, 131 species of mammals, 166 types of birds, 57 varieties of rodents, 186 types of amphibians, 143 species of reptiles and 21 species of primates in an area of 22,500 hectares.

### 6.1.6. THE WHALE COAST

Diving in the waters of the Abrolhos archipelago in the extreme southern part of Bahia is part of an ecotourist adventure. Whale watching is the preferred attraction of hundreds of tourists who arrive during the season of the "jubarte" whales, between July and November, when they migrate to Abrolhos.

This region contains one of the largest concentrations of fish - in terms of volume and variety - per square meter on the planet. The underwater world contains a total of 17 species of corals that form an environment that is appropriate for numerous other species of maritime fauna. The Whale Coast includes the municipalities of Alcobaca, Caravelas, Nova Viçosa and Mucuri and its main attraction is the Parque Nacional Marino de Abrolhos.

**Parque Nacional Marinho de Abrolhos** – It is the first Brazilian park of its type and covers the Parcel das Parades and the Abrolhos archipelago, containing a series of coral reefs, volcanic islands, wetlands, tide canals and reefs of Timbemas. It is the largest ecotourism adventure of Bahia. The "Jubarte" whales spend a season in the region and are the principal attraction, aside from the reefs and rare corals such as the "brain" coral. Specially guided deep-sea diving activities make it possible to explore shipwrecks, submarine caves and observation of endemic corals.

**Alcobaça** – The town contains many kilometers of virgin beaches and one of the access ports to reach the Abrolhos. The region conceals the secrets of treasures which French corsairs hid along the coast and memories of the first expeditions of the Portuguese colonizers.

**Mucuri** – The 35 km of beaches mark the beginning or the end of the beaches along the coast of Bahia, depending on whether one begins from south or north. The ecosystems alternate between wetlands at the mouth of the Rio Mucuri, extensive beaches with strips of continuous sand which stretch into the sea in the form of crowns, then there are the Falesian seaside cliffs, rock formations in the form of walls, with exotic relief and forest and wetland vegetation concealing deserted beaches, especially the Costa Dourada.

In the opposite direction are the Visitors Center and the Base of the TAMAR Project on the Praia das Malvinas, and further on, at the Praia do Pôr do Sol an area where turtles lay their eggs. Aside from sea bathing, another attraction is bathing in the sweat water at the Parque Ecológico of the Rio Coca-Cola or Mucurizinho.

### **6.1.7. THE DIAMANTINA TABLELAND REGION**

The geographical center of Bahia is the Diamantina Tableland region. In this mountainous region with a diversified topography, 90% of the rivers of the Paraguaçu, Jacuípe and Rio das Contas basins have their source here. There are thousands of kilometers of clear waters that spring from these mountains and descend in cascades and waterfalls to plateaus and plains, forming beautiful natural pools. The vegetation mixes cactus species of the *caatinga* dry lands with rare examples of the mountain flora, especially bromeliads, orchids and "sempre vivas" (member of the strawflower family).

On the area one can find the three highest mountains in the state: Pico do Barbado, 2,080 m high, Pico Itobira, 1,970 m, and Pico das Almas, 1,958 m.

Another scenic attraction is the Cachoeira da Fumaça, that falls 420 m, the Gruta dos Brejões, the largest cavern opening of Bahia, and the amazing Poço Encantado, which fascinates visitors to the region. There are so many natural attractions that it is possible to choose between subterranean routes in caves, or trip to waterfalls, trek along old gold mining trails or follow the steps of the Prestes Column, rapel, climb mountains, or go horseback riding in the Vale do Capão or Vale do Paty, in the midst of esoteric and alternative communities. Many of the sites are protected by the National Park of Diamantina Tableland region and the Environmental Preservation Area Serra do Barbado and Marimbus – Iraquara. There are opportunities to take long bikes, or travel on horseback, mountain bike or off-road vehicles. It is possible to visit the attractions of different municipalities since they are close together. The main tourist attractions, by municipality, are as follows:

**Lençóis** – Cachoeirinha, Cachoeira da Palmeira, Poço Paraíso, Salão das Areias Coloridas, Serrano, Gruta do Lapão, the rapids of the Ribeirão do Meio, Cachoeira do Sossego, boating or kayaks through the marimbus to the Cachoeira do Roncador, Cachoeira do Mosquito, Rio São Jose, Rio Lençóis and the Falesian cliffs of Afrânio Peixoto.

**Rio de Contas** – Pico das Almas, Cachoeira do Fraga, Ponte do Coronel, Estrada Real, the village of Mato Grosso and the Poço das Andorinhas in the district of Arapiranga.

**Seabra** – Caverna Buraco do Cao – pre-historic cave paintings of Alagadiço.

**Itaité** – Poço Encantado and beaches along the Rio Paraguaçu.

**Parque Nacional da Chapada Diamantina** – covers the municipalities of Lençóis, Andaraí, Mucugê, Palmeiras and Ibicoara in an area of 152,000 hectares. It contains species of fauna such as capivara, coati, a feline called the "onça pintada", suçuarana, deer, macaw, parakeets, curió. Among the species of flora are orchids, bromeliads, sempre-vivas (strawflowers), canelas de ema and gravata de cacho, the principal trails offer routes that can last as long as five days, for example: the Lençóis / Andaraí trail, passing through Ribeirão de Baixo, Rio Cachoeira da Capivara, the "marimbus" of the Rio Santo Antônio, Rio Roncador, Cachoeira do Garapa. The trail is 40 km long.

**APA Marimbus-Iraquara** – It is located in an area of 1,254 square km and a perimeter of 225 km, covering areas of the municipalities of Lençóis and Iraquara – including the county seats - Andaraí, Palmeiras and Seabra with their beautiful scenery, such as the Morro do Pai Inácio and Morro do Camelo, Cachoeira dos Dois Braços, Grutas da Pratinha, Lapa Doce, and Riacho do Mel, the Falesian cliffs of Afrânio Peixoto, the valleys of the Rio Santo Antônio and Rio Mucugezinho, the "marimbus" between Lençóis and Andaraí and many other attractions. In order to optimize these trips in the environmental protection area (APA), visitors should begin in the cities of Lençóis, Seabra or Iraquara, depending on the attractions they want to visit.

**APA Serra do Barbado** – in an area of 636,52 square km, this environmental protection area (APA), includes land in the municipalities of Piatã, Abaíra, Rio de Contas, Rio do Pires and Érico Cardoso. This area contains the Pico do Barbado (the highest in the Northeast) and Pico das Almas.

## 6.2. ECOTOURISM

The strengthening of ecological tourism – ecotourism – is another alternative considered as priority to tourism growth in Bahia. This segment, that motivates an increasing number of tourists all over the world, has in Bahia, with its huge natural patrimony, the ideal conditions to be well developed. The ecological component has been largely used in the strategies for promoting the product "BAHIA", emphasizing destinations like Todos os Santos Bay, Mangue Seco dunes, national parks of Dimantina Tableland region, Monte Pascoal and Raso da Catarina, Parque Nacional Marinho de Abrolhos, Paulo Afonso waterfalls and the San Francisco and Paraguaçu rivers, right above mentioned.

A very important action to provide incentives of ecotourism was the edition of the Guide of Ecotourism in Bahia, which conquered the certificate of National Distinction in Ecotourism, in the World Ecotour'97, that took place in Rio de Janeiro. With any doubt, Bahia has come ahead of the other states in Brazil with this work, which is the first one like it to be edited by a tourism public agency. The Guide has 60 pages illustrated with 100 colored pictures, and it focuses on the main attractions. Not limited to showing the natural beauties of the State, it also orientates tourists about what kind of clothe to wear, adequate food, how to get and act in the tracks, and, most important of all, how to preserve nature.

One of the basic tools of the State Government in promoting the ecotourism is its net of Environmental Protection Areas (APA), created to assure environmental preservation in some regions of privileged landscape and natural resources, and to establish a policy for sustainable development that enables the implementation of big enterprises without any aggression to nature. Each APA has its specific management plan, that establishes and fiscalizes the fulfilment of conducts and criteria for the environmental preservation in the implementation of big economical projects.

Besides the APA, the Government has been searching for other institutional formats for its policy of preserving the Bahian ecosystems. One of them is the creation of parks and State Reserves, like the Serra do Conduru park, the first one like it in the State, created by DDF (Bahia forest development department), with the support of Secretariat of Culture and Tourism. Located in the west of the APA Itacaré/Serra Grande, in the south of Bahia, the park covers the municipalities of Uruçuca, Itacaré and Ilhéus.

Another sector that is being fostered by the State Government, through the Secretariat of Culture and Tourism, is the so called rural tourism, like an ecotourism that prioritizes the contact with nature in rural productive units, structured like ranch-hotels. In Bahia, there are already many ranches implementing the rural tourism, mainly in the Cacao Region, in the Recôncavo Region (near Todos os Santos Bay), in the Diamantina Tableland region, in the North Coast, and in Feira de Santana. Aiming to increase the development of this sector of the tourist activity, the Secretariat of Culture and Tourism, together with Sebrae (brazilian center for supporting micro and small firms), promoted in August, 1997 the X Seminar on Rural Tourism of Bahia and the publishing of the book "Turismo Rural na Costa do Cacau". This action has counted on the support of Federal University of Bahia, Tourism College of Bahia, Senar and the Secretariat of Agriculture of the State.

## 6.3. PRODETUR (Tourism Development Program)

### 6.3.1. Infrastructure

Tourism, assumed by the Government as its strategic guideline, has been able to foster the social and economic development of many regions in the State of Bahia. This is due primarily to the fact that it is a fast-growing sector, an important job creator, multiplier of another economic activities, besides needing a reasonable public infrastructure that, by itself, contributes to the improvement of the quality of life of the local populations.

With the main objective of organizing the tourist area of the State, the Program for Tourism Development – PRODETUR will implement Integrated Tourist Centers located in zones with real tourist potential, able to compete with other international destinations. This program also incorporates some perspectives that are fundamental to the consolidation of the tourist activity. They are: promote a sustainable and balanced development among the environmental, urban and tourist components; valorize the natural resources and attractions, respecting the loading capacity of each area; stimulate the private sector to invest in the tourist organized areas; unleash local actions of the municipal governments; and present to the potential investors the tourist profile of each area.

The amount of investments estimated for the various tourist areas is around US\$2,034 million per year, from which US\$1,357 million are already being spent in works either concluded or in progress, and US\$677 million are related to projects for the year 2005.

Within the priority actions of the Government to consolidate tourist activity, it's important to highlight the ample set of works of public infrastructure, initiated by PRODETUR, which is coordinated by CODETUR (Tourism Development Division) of the Secretariat of Culture and Tourism. It executed the project with the direct participation of various related agencies like BAHIA TURSA, DERBA, DTT, CONDER, CRA, EMBASA, CERB, IPAC, and many others.

PRODETUR has executed projects with State's treasury resources, resources from IDB, having the BNB – Brazil Northeast Bank as its financial agent, and resources from BNDES. The set of works that compose the first stage of the program has reached the amount of US\$261 million, relative to works in the areas of basic sanitation, transportation, urban cleaning, recovery of the historic assets, environmental protection and institutional strengthening of the state and municipal entities involved in the process; of this amount 40% is due to the Government and 60% to IDB, relative to the areas of the Discovery Coast, Cacao Coast, Diamantina Tableland region and Todos os Santos Bay.

Among the projects terminated there are, on the Discovery Coast, the Sta. Cruz de Cabrália/Sto. Antônio/Belmonte road (US\$8.8 million), the Porto Seguro water supply and sanitary sewage systems (for the city, and Trancoso and Arraial d'Ajuda villages) (US\$36.2 million), and the 2<sup>nd</sup> enlargement of the Porto Seguro airport (US\$5.4 million). Similarly, on the Cacao Coast, there is the Ilhéus/Itacaré road (US\$20.4 million), with characteristics of a park-road, and still in progress is the Itacaré/Serra Grande Environmental Protection Area and the Serra do Conduru State Park. In the Diamantina Tableland region the Lençóis airport (US\$8.5 million) has been recently inaugurated; and in Salvador the Bonfim church, Historic Center, the Cultural Block/Culture and Memory Arts Square are all being restored. Added to these the enlargement of the International Airport of Salvador (US\$124.5 million).

Besides PRODETUR, the Government of the State has been investing in infrastructure projects in the many tourist zones, counting on treasury resources, other financing sources and resources from the privatization of Coelba.

During the implementation period of the PRODETUR program, whose planning was initiated in the year 1991, a significant number of private tourist investments in the above mentioned zones is occurring, confirming the tourist appeal of these areas and supporting the Government actions towards the implementation of new public infrastructure and the promotion of these locations as international destinations. Table ... shows the tourist private investments realized from 1991 to 1998, adding up to US\$555.6 million in the respective tourist areas of the PRODETUR. The amount of investments projected for the year 2005 is about US\$ 1.7 billion.

Among these actions, some projects must be distinguished in each area, for instance:

- 
- Coconut Coast – Marina Riverside (Lauro de Freitas), Fronteira Tropical Resort (Camaçari), Resort Itariri (Conde), the enlargement of Praia do Forte Resort (Mata de São João), the first tourist complex in South America, which is the Projeto Sauipe, with 3,200 beds planned for the first phase.
- 
- Todos os Santos Bay – Fiesta Bahia, Catussaba, Cesar Towers, Sol Vitória Marina and Sol Bahia Atlântico hotels, besides other attractions like the Wet'n Wild Water Park and the Bahia Marina.
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- Dendê Coast – Villegaignon Hotel and many hostels in Morro de São Paulo and Valença.
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- Cacao Coast – Canabrava Resort and Opaba Praia (Ilhéus), the enlargement of the Comandatuba Transamérica Hotel, besides a great number of hostels in Ilhéus, Canavieiras and Itacaré.
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- Discovery Coast – here there is the largest number of new investments, like the Paradise Resort and Water Park, Vela Branca, Monte Pascoal, Baía Cabralia, Arcobaleno, Shalimar, Bosque do Porto and Costa Esmeralda hotels.
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- Whales Coast – Convés do Farol and Portal de Abrolhos (Alcobaça), Privê Praia and many hostels (Prado, Nova Viçosa, Caravelas and Mucuri).
- 
- Diamantina Tableland region – Portal de Lençóis Hotel, the enlargement of the Pousada de Lençóis and Pousada Canto das Águas (Lençóis), Pousada de Mucugê and Hotel Alpina (Mucugê), and San Felipo Resort, Raposo and Pérola do Rio hostels (Rio de Contas).

An example of the importance of tourist activity for job creation is that the tourism has been generating yearly 357,000 jobs in the State, from which 65,000 are direct. Considering the increase in the number of hotels projected for the years ahead (+34,500 beds), it is estimated that in the year 2005 tourism will be generating about 501,000 jobs, from which 91,000 will be direct.

The potential for development of tourism in Bahia is not limited to these areas included in the 1<sup>st</sup> stage of the PRODETUR program. Thus, the Secretariat of Culture and Tourism of the State has been identifying new regions that can be incorporated to the 2<sup>nd</sup> stage of the program, and trying to find out new financing sources to make it come true.

**PUBLIC AND PRIVATE INVESTMENTS**

US\$ 1,000

TOURIST ZONES	GOVERNMENT ACTIONS		PRIVATE INVESTMENTS	
	1991/1998 (*)	GOAL TO 2005	1991/1998	GOAL TO 2005
COCONUT COAST	83,501	80,442	58,465	485,000
BAIA DE TODOS OS SANTOS	809,491	236,379	223,206	245,000
DENDE COAST	69,476	27,705	14,098	115,000
CACAO COAST	103,512	104,158	62,169	130,000
DISCOVERY COAST	121,414	121,239	139,602	446,000
WHALE COAST	46,525	51,868	25,018	105,000
CHAPADA DIAMANTINA	70,464	54,959	19,288	115,000
OTHERS AREAS	52,383	313	13,783	65,000
<b>TOTAL</b>	<b>1,356,766</b>	<b>677,063</b>	<b>555,629</b>	<b>1,706,000</b>

(\*) Works concluded and in progress. Of this amount, US\$256,766 are to be concluded in the next administration.

**INDICATORS 1997 / 2005**

MAIN INDICATORS	1997	GOALS FOR 2005
<b># of Tourists</b>	<b>3,109,000</b>	<b>6,000,000</b>
Domestic	2,769,000	5,100,000
Foreigners	340,000	900,000
Generated Revenue	US\$856.6 million	US\$1.8 billion
Impact on GDP	US\$1.62 billion (4.3%)	US\$2.86 billion (5.5%)



## INDICATORS 1998 / 2005

MAIN INDICATORS	1997	GOALS FOR 2005
<b>1 - Jobs</b>	<b>357,000</b>	<b>501,000</b>
Direct	65,000	91,100
Indirect	292,000	409,900
<b>2 - Population depending on tourism</b>	<b>714,000</b>	<b>1,002,000</b>
<b>3 - # of Beds</b>	<b>105,200</b>	<b>139,700</b>
<b>4 - # of UH</b>	<b>43,300</b>	<b>60,700</b>
<b>5 - Flights</b>	<b>598</b>	<b>980</b>
<b>Luiz E. Magalhães Airport</b>	<b>484</b>	<b>810</b>
Domestic Arrivals per week	454	750
International Arrivals per week	30	60
<b>Porto Seguro Airport</b>	<b>114</b>	<b>170</b>
Total Arrivals per week	114	170

### 6.3.2. National Marketing

Regarding the marketing strategy for national tourism, BAHIATURSA has been developing an innovative approach towards the target-public of some specific fairs, like the informatics, industrial sector, house utilities, commerce, sports and cattle ranching. Concerning this strategy, BAHIATURSA also brings gastronomic, arts, music and folklore festivals to the public.

Parallel to these retail events, BAHIATURSA also takes some actions related to the wholesale market, represented by the tourism agents and operators.

Propaganda in radios, TV channels, printed media are also routine actions of BAHIATURSA towards the publishing of the product "BAHIA". In this process, the Press Consulting of BAHIATURSA executes a complementary action in the national and international press, supplying information about Bahia. In the period 1991 – 1997, there were 1,792 notes, articles and releases from Bahiaturrsa.

Another priority for the State is the occurrence of Congresses and Fairs, which is an efficient alternative in light of the seasonal reduction in the tourism economy. In the period 1991 – 1997, the Convention Center, in Salvador, housed 180 events, of which were 43 international, 104 national and 33 regional.

For the years ahead, the Convention Center is booked until 2000, with 17 international events, 33 national and 4 regional ones. It is expected that for the year 2005, Bahia will place on average 52 national and international events per year.

In 1997, Bahia was visited by approximately 2.8 million Brazilian tourists. Porto Seguro, considering tourism for leisure, received 624 thousand Brazilian tourists, corresponding to 23% of the total domestic flow to Bahia.

### 6.3.3. International Marketing

The marketing strategy for international tourism developed by BAHIATURSA was oriented to those markets where there were direct flights to Bahia. This could happen through the establishment of partnerships with airline companies and tourism operators (sellers) in each target-market, and also with the suppliers of on-land

services (hotels, agents, etc.) in Brazil and Bahia, trying to provide adequate Bahian products, services and prices to the needs of each buyer market.

The captation of international flights to Bahia constituted one of the main actions of the marketing strategy adopted. It created more favorable conditions for competing in the world tourist market, since it facilitated the access of passengers and brought more attractive prices to the traveler.

Thus, from 1998, Bahia is receiving 30 regular international flights per week, in Salvador. This potentially can bring more than 6,500 passengers, from 18 different cities from 13 countries in 3 continents. Besides this, there are 5 charter flights to Porto Seguro, coming from Buenos Aires and Córdoba, in Argentina, and from Montevideo, in Uruguay. In 1986, Bahia received only 4 international flights. In 1991, in the first year of the administration of the current Senator Antônio Carlos Magalhães, Bahia received only 3 international flights.

An intensive promotion and marketing action in the major world markets has been developed. The production and participation in events, acknowledgement trips to operators and press, edition and distribution of promotional material in 9 different languages and media, besides the contact and personal negotiations with representatives of various tourist activity segments is all part of this marketing strategy.

In the last few years, Bahia produced an average of 50 international events per year, including 20 workshops exclusively about the product "BAHIA". It participated in 20 world fairs and 10 other events oriented to the consumer in the main markets. Until the year 2005, it is expected that BAHIATURSA will participate in 100 events/year.

Aiming to enrich our knowledge on the tourism activity in practice, we had the opportunity to make a visit to GEROSA / AMAZON ADVENTURERS, an american travel agency expert in the issuance of tourism packages to Brazil. At this opportunity, we tried to identify the main aspects, positive and negative, that may have any influence in the promotion and consequent operationalization of the selling of the product BRAZIL, and in more detail, BAHIA.

For the positive aspects regarding the tourism in Bahia, there were the natural beauty of the State, the interest of the Government in promoting the activity, the vast and diversified culture, the hosting structure with very reasonable prices, the typical food, the popular festivities, which are permanent, and the joyfulness of its people in welcoming the tourist.

In respect to the negative aspects, the difficulty that the international travel agencies have had concerning the access to information at Embratur and even the Brazilian embassies, related to the participation in promotional material (hard to get brochures, for instance) and campaigns, the lack of actions from Embratur towards the recognition of the tourism international agencies which are specialized in the product Brazil must be mentioned. For instance, what happens to the Australian Government that offers visits to the main tourist areas of the country to the agencies specialized in its product, as well as it concedes them special assignments (distinctives). At last, they also mentioned the small size of the airport of Salvador and the not-so-good access to it. This last issue is already being taken care by the State of Bahia, through some Government actions already in progress, like the enlargement and modernization of the airport, previously mentioned in item 5.2 of this paper.

Below we have some figures on the tourism activity in Bahia, which reflect the current situation:

#### GLOBAL FLOW

In 1,000

Destiny	# of Tourists Foreign + Brazilian						Goal for 2005	Variation		
	1986	1993	1994	1995	1996	1997		97/96	97/86	05/97
<b>Bahia</b>	<b>2,098</b>	<b>2,350</b>	<b>2,577</b>	<b>2,581</b>	<b>2,802</b>	<b>3,109</b>	<b>6,000</b>	<b>11%</b>	<b>48%</b>	<b>93%</b>
Salvador	-	1,119	1,227	1,229	1,334	1,519	3,060	14%	-	101%
P. Seguro	-	516	566	567	616	666	1,260	8%	-	89%
Ilhéus	-	132	145	145	158	175	300	11%	-	71%
Outros	-	583	639	640	694	749	1,380	8%	-	84%

## INTERNATIONAL FLOW

In 1,000

Destiny	# of Tourists Foreign + Brazilian						Goal for 2005	Variation		
	1986	1993	1994	1995	1996	1997		97/96	97/86	05/97
Bahia	111	210	231	254	292	340	900	16%	206%	165%

## TOTAL OFFER OF BEDS

Type	NUMBER OF BEDS					Goal for 2005	Variation	
	1994	1995	1996	1997	1998		98/97	05/98
Bahia	81,447	87,073	100,199	103,490	105,200	139,700	2%	33%

## WEEKLY INTERNATIONAL ARRIVALS

Destiny	YEAR						Goal for 2005	Variation		
	1986	1994	1995	1996	1997	1998		98/97	98/86	05/98
SALVADOR	4	20	18	14	20	30	60	50%	650%	100%

## JOB GENERATION

Type	# of Jobs		Goal for 2005	Variation	
	1986	1998		98/96	05/98
Direct	22,980	65,000	91,100	183%	40%
Indirect	57,450	292,000	409,900	408%	40%
<b>Total</b>	<b>80,430</b>	<b>357,000</b>	<b>501,000</b>	<b>344%</b>	<b>40%</b>

## 6.4. FINANCIAL AND TAX INCENTIVES

### 6.4.1. Private Investments

In addition to expanding the chemical and petrochemical industries and the possibility of adding new metallurgy sectors through the mining industry, Bahia is experiencing the rapid expansion of its tourist industry. Investment opportunities are stimulated by Bahia State Government that has given high priority to tourism activity. This makes it possible to plan a non predatory touristic flow, while the historical, cultural and artistic patrimonies are preserved as the time as income and employment are generated reinforcing the state economy.

Aiming to promote new investments, new tourist complexes were created, corresponding to the major tourist attraction areas/regions defined in the last chapter.

For these complexes, State Government formulated policies and occupation directives looking for the economic development based on the touristic activity.

All the necessary infrastructure has already been provided or it will be soon offered: easy road access and integration with the others economic regions and with the rest of the country; sanitation, telephone lines, electric energy, etc., All this infrastructure will provide the private enterprises with the necessary conditions for installing tourist facilities in previously established zones. With the public investments offered by Bahia State Touristic Development Program the doors are open to the private entrepreneurs.

### 6.4.2. Tax Incentives And Financing Programs

- **Regional Tax Incentives** – The incentives administered by the Development Superintendency of the Northeast (SUDENE) include Bahia State.

The Investment Fund for the Northeast (Finor) is financed by Federal Income Tax payments made by legal entities. It provides financial support for enterprises considered to be of the interest to the Northeast of Brazil, including plans to install, modernize, complement, expand, diversify, restructure or refurbish industrial, agribusiness, mining, agricultural, fishing, tourism and other ventures.

Finor invests its resources on projects by underwriting debentures that may or may not be convertible into shares, emitted by the beneficiaries themselves.

Before presenting their proposals for Finor funding to the Sudene, interested companies should submit a Letter of Consultation for the approval of the Executive Secretariat, observing the norms adopted by the Sudene.

The information about this program is available at the Sudene and its agencies, as well as the Bahia State Department of Industry, Commerce and Tourism, Banco do Nordeste, and other state and regional institutions.

The companies already established in the Northeast also benefit from other incentives, besides Finor, such as:

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- Income tax exemption – exemption is conceded covering a period of 10 years for companies established in the Brazil's Northeast Region. It includes projects for establishing, modernizing, expanding or diversifying ventures.
- 
- Reinvestment of Income Tax – Its main objective is capitalizing the companies established in Brazil's Northeast Region. All industrial, agribusiness and construction operating in the Sudene's sphere of operations can reinvest in their own projects 40% of the income tax owed, on modernizing, expanding or production diversifying projects.

All these incentives are quite easy and quick to access. Information may be asked for at the Sudene head office and in its states offices as well as in Rio de Janeiro, São Paulo and Brasília, Banco do Nordeste and other state or regional institutions like Sebrae.

- 
- Credit – There are several credit lines available in Bahia State, furnished by the Banco de Desenvolvimento Econômico e Social (BNDES) System, and Banco de Desenvolvimento do Estado da Bahia S/A (DESENBANCO).

Banco de Desenvolvimento Econômico e Social (BNDES) – The System provides long-term financing for large and mid-sized ventures, in programs related to:

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- Industry;
- 
- Infrastructure;
- 
- Farming and Livestock;
- 
- Commerce and Services;
- 
- Sales of Machines and Equipment;
- 
- Market and Capital Development;
- 
- Environment Preservation;
- 
- Tourism (one of the main programs is the National Program of Financing Tourism, with investments that can reach the amount of US\$3 million, with low interest rates, grace period up to 2 years, and total term given up to 8 years).

Banco do Nordeste do Brasil S/A - Operating basically with funds from the FNE, the BNB concentrates its investments in the private productive sector, providing the Semi-arid region with 50% of the available credit. Among the main programs financed by this system are those related to industry, agribusiness and tourism.

In investing these funds, the BNB gives preferential treatment to micro and small businesses producing basic foodstuffs, irrigation projects, environmental preservation, and credit together with technical assistance.

Therefore, considering all the investments of the public sector in infrastructure and the incentives given to the private sector, the State has been preparing the necessary conditions to become one of the great receptive centers of the world tourism industry. This is being made possible through a daring marketing program, that aims to show to the international public, as much as the national one, the product BAHIA.

## 7 -CONCLUSION

With this paper, we have tried to describe the economic-financial situation of the State of Bahia, analyzing its micro and macroaggregates, as well as its main activities, giving priority attention to the investments area as a whole and, in particular, the tourism segment.

After a brief introduction, we gave an overview of the State's geographical and demographical features. In chapter 3 of the paper, we analyzed the State's performance in the economic and financial fields, as well, in chapter 4, we talked about the State's strategic policy for development (the pluri-annual plan). In chapter 5, there are the main areas of investments with each priority programs, and finally, in chapter 6, one can find the information regarding tourism as a factor to foster economic and social development.

The State, fulfilling its institutional role, has been realizing the necessary investments in infrastructure (education, health, transportation, public security, sanitation), as described in item 5 of the paper, with the objective of assuring welfare to the population, as well as providing the necessary conditions for the expansion of the tourism economic activity.

As mentioned in "Models of Economic Development" (Stephen C. Smith), by the late 90s', there is a growing consensus that the development policies must be market-based. The Government should not be in the business of direct production. There is a broad, eclectic role for government in providing a stable macro environment, infrastructure (in fewer sectors than thought necessary in the past), health, education and training, as well as technology transfer. For instance, in the State of Bahia, the Government has privatized some companies that should be in the private sector, like "CNB – Companhia de Navegação Baiana" (ferry-boat system).

Conscious that the tourism is a segment of the economic activity that is characterized for its great competitiveness, the Government of the State has been dedicating special attention to the development of a policy oriented to the improvement of the services provided. The Tourism Development Program – PRODETUR has been the main instrument for achieving this policy.

Planning the goals for a policy of fostering the tourism in Bahia is an easy task because of its natural potentialities towards this activity. In very few places in the world, the tourism industry can count on so many and diversified attractions for only one product: a rich history, a valuable patrimony in colonial architecture and baroque art, a specific and vigorous culture, besides an astonishing nature that includes more than 1,100 km of sunny beaches during most of the year, and ecological destinations as important as the Diamantina Tableland region and Parque Nacional Marinho de Abrolhos.

All this represents the input to promote nationally and internationally the product "BAHIA", through the participation in propagandas and promotional events. Regarding this aspect, the period 1995 – 1997 brought significant advances either in the increase of the number of visitors or in the captation of new events to Bahia. For the years to come, the projections are even more optimistic as a result of the investments currently being made.

Finally, we expect to have given a general view on the State's economic situation and development policies, more specifically regarding the tourism activity, demonstrating that with the political will, necessary efforts and efficiency Bahia can become a developed State, which guarantees high quality of life to its people and its future generations.

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